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Austria	Sch22	Indonesia	Rp3100	Philippines	Pesos40
Bahrain	Din0.650	Iran	Rls160	Portugal	Esc120
Belgium	BFr48	Israel	NS3.50	S.Arabia	Rls7.00
Canada	C$1.00	Italy	L1700	Singapore	S$4.10
Cyprus	C£0.90	Japan	Y600	Spain	Pta145
Denmark	DKr10.00	Jordan	Fils.500	Sri Lanka	Rup30
Egypt	E£2.25	Kuwait	Fils.500	Sweden	SKr9.00
Finland	Fmk7.00	Lebanon	L£1250.00	Switz	SFr2.30
France	FFr7.00	Lux	LFr48	Taiwan	NT$85
Germany	DM2.30	Malaysia	Rlt4.25	Thailand	Bht50
Greece	Dr120	Mexico	Pes300	Tunisia	Din0.800
Hong Kong	HK$12	Morocco	Dh6.00	Turkey	L600
Iceland	Ikr125	Neth	Fl3.00	UAE	Dh6.50
India	Rup15	Norway	NKr10.00	USA	$1.00

EUROPE'S BUSINESS NEWSPAPER

FINANCIAL TIMES

No.30,717 Monday December 12 1988 D 8523 A

BRAZIL
Crippling cost of the Aids epidemic
Page 18

World News

Madrid and unions head for strike clash

Hostility between Spain's Socialist Government and the country's main trade union increased before next week's planned general strike. The Government passed an emergency law on manning levels for public services and the unions threatened new stoppages. Page 2

Protests in Gaza

Palestinians held an impromptu general strike in the occupied Gaza Strip to protest against the fatal weekend shootings of two Arab youths. Three Israeli soldiers and seven Palestinians were wounded in clashes.

SA accord expected

Angolan, Cuban and South African representatives are to meet again in Brazzaville, the Congolese capital, today, to sign the Geneva protocol on Cuban troop withdrawals from Angola and independence for Namibia. Page 2

Hirohito worsens

Japanese Emperor Hirohito was almost completely comatose after several days of heavy *internal bleeding. In an* unusual move the Grand Steward and Chamberlain were called to the Imperial Palace.

Tibet clashes

One Tibetan Buddhist monk was killed and 13 people were wounded when police opened fire during a demonstration in the capital of Lhasa. There were unconfirmed reports of more deaths. Page 3

Pakistani premier

Pakistani lawmakers today choose between four presidential candidates, with incumbent Ghulam Ishaq Khan firm favourite to win a full term.

Quake in Greece

A moderate earthquake measuring 4.0 on the Richter scale shook northern Greece

Tutu challenge

Archbishop Desmond Tutu challenged the South African government to charge him with treason, saying he is as guilty as four black activists sentenced to prison last week.

GCC supports PLO

Foreign ministers of the six-nation Gulf Cooperation Council opened a two-day conference with a declaration of support for the Palestine Liberation Organisation's proclamation of an independent state.

Czech Catholic vigil

About 1,000 Czech Roman Catholics held a vigil in Olomouc to demand the release from a psychiatric ward of Augustin Navratil, author of a petition for religious freedom.

Satellites launched

Europe's Ariane 4 rocket lifted off successfully and launched two satellites into orbit for British military communications and direct television broadcasts to European homes.

Greek bases talks

Greece and the US launch a final round of talks today on the future of US military bases in the country. Demonstrators gathered peacefully outside parliament in Athens calling for the closure of the bases.

Israeli teams named

Israeli Prime Minister Yitzhak Shamir and Foreign Minister Shimon Peres appointed negotiating teams to work out terms for a new national unity government between their Likud and Labour parties.

Cyprus shooting

A Greek Cypriot guardsman shot and wounded a Turkish soldier in the UN-patrolled buffer zone dividing Cyprus.

Polisario apologises

Morrocan Polisario guerrillas apologised for shooting down a hired US aircraft, killing all five American aid workers aboard. Page 3

Push for Gulf peace

French Foreign Minister Roland Dumas said France will press the European Community to assist in the resumption of the deadlocked Iran-Iraq peace talks.

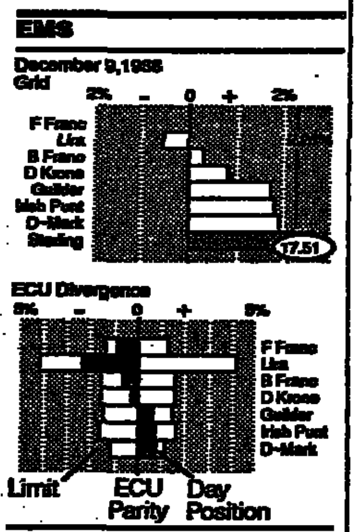
Business Summary

EC imposes sharp cuts in fishing quotas

EUROPEAN COMMUNITY fisheries ministers imposed sharp cuts in the total catch for certain key species over the next 12 months in an effort to preserve stocks. The deal averts a serious crisis in EC fisheries policy. Page 18

BRITISH INDUSTRY remains confident about lifting output but, despite a poor export performance, plans to increase prices, according to a Confederation of British Industry survey. It indicates that demand has been buoyant despite the rise in interest rates. Page 18

EUROPEAN Monetary System: EMS currencies traded within a fairly narrow range last week, although the D-Mark finished on a firmer note amid fears over West German interest rates. The French franc continued to perform reasonably well, despite further strikes in Paris, and there was no support given by the Bank of France. The latter left its money market intervention rate unchanged at 7¾ per cent.



The chart shows the two constraints on European Monetary System exchange rates. The upper grid, based on the weakest currency in the system, defines the cross-rates from which no currency (except the lira) may move by more than 2¼ per cent. The lower chart gives each currency's divergence from the "central rate" against the European Currency Unit (Ecu), itself derived from a basket of European currencies.

LATIN AMERICAN Finance Ministers began a two-day meeting in Rio de Janeiro aimed at hammering out a new "non-conventional" strategy to renegotiate their foreign debts, jointly estimated at over $300bn. Page 2

SOCIETE GENERALE de Belgique, Belgium's powerful holding company, is due to announce a complex share swap between two of the group's leading shareholders and the sale for BFr10.2bn ($280m) of its 5.2 per cent stake in the Alcatel telecommunications concern. Page 27

JAPANESE and Australian politicians warned the US and Europe yesterday against forming blocs that hinder free trade, and urged more co-operation in the Asia-Pacific region. Page 6

KOOR, embattled Israeli conglomerate, meets its foreign creditors in London today for what promises to be a showdown. The meeting was called by Bankers Trust which *applied for the winding-up of* the company. Page 2

MACMILLAN, US publisher, has sold its Michie tax codes division for $226.5m, bringing to nearly $650m the money it has raised from disposals since Mr Robert Maxwell, the UK publisher, won control last month for $2.6bn. Page 21

KUALA LUMPUR Stock Exchange is being shaken up as part of the Malaysian Government's plan to develop the capital market.

NORWEGIAN OIL CONSORTIUM (Noco), small independent company with stakes in four oil and gas fields, rejected an offer by Saga Petroleum.

CITICORP, biggest US bank company, has acquired an insolvent Florida bank, Caribank of Dania, giving Citibank a foothold in the state's lucrative commercial banking market. Page 21

KLEINWORT BENSON, London merchant bank, is to move administration of its UK mortgage book to Skipton Building Society, the first time a bank has transferred its mortgage book to a building society for administration. Page 11

WALL ST PRICES: Because of technical difficulties, a few of the quotations on Pages 38 and 39 are 3pm prices, not closing prices.

Soviet earthquake rescue bid faces growing criticism

By John Lloyd and Quentin Peel in Moscow

THE HORROR of the Armenian earthquake was compounded yesterday when a military aircraft landing at the grossly overburdened Leninakan airport crashed on approach, killing nine crew and 69 servicemen detailed to join the 20,000 troops already engaged on relief work in the city.

The Soviet Foreign Ministry said that according to airport authorities the Ilyushin 76 went down after hitting a helicopter. It was not clear if anybody had been on board the helicopter.

The crash of the Ilyushin 76 transport aircraft was the most dramatic example of the inadequacies of the rescue operation, attracting growing criticism in the Soviet press and from rescue workers and survivors.

Reports indicate that the roads to Armenia's shattered towns are jammed, the injured are dying in nearby hospitals for lack of equipment, and excavation and lifting gear is still in short supply.

Mr Mikhail Gorbachev, the Soviet leader, visiting Leninakan with his wife Raisa and other Politbureau members on Saturday, was shown on television clearly moved by the devastation. He said: "We all, the whole of the country, share your sorrow."

Meeting a member of a French rescue team, Mr Gorbachev thanked him and other foreign rescue workers, saying: "It is impossible to more adequately express noble human solidarity."

The Soviet Union observed a day of mourning on Saturday and special church services were *organised.*

All main communications routes in the area are under strain. Besides the overcrowding of Leninakan and Yerevan airports, the main Tblisi - Yerevan rail line, which passes through Leninakan, is cut.

Mr Yuri Chaplygin, deputy chief spokesman for the Soviet Council of Ministers, said: "practically all the hospitals in the area are destroyed, and those in Yerevan are full to capacity. We are using all the beds in Armenia and they are not sufficient. The most severely injured are being moved to Moscow."

The disaster – now officially estimated to have cost between 40,000 and 45,000 lives – has not had the hoped-for effect of calming passions in Armenia, or in neighbouring Azerbaijan, over the disputed Armenian enclave of Nagorno–Karabakh, which is on Azeri territory.

There are indications that the political situation in Yeravan is deteriorating. On Saturday, before Mr Gorbachev's visit, the police arrested seven members of the influential but banned Karabakh committee, focus for the nationalistic feeling in the republic.

At two mass demonstrations called yesterday in Yerevan to protest against the arrests, *police fired in the air to disperse* demonstrators and arrested at least four protesters. Witnesses said the demonstrators carried clubs.

Karabakh committee supporters in Moscow said last night that one of the seven arrested, Mr Ashot Manacharyan, was a deputy to the Armenian Supreme Soviet.

The Karabakh committee supporters also claimed that Azeri activists had not ceased their attacks on Armenians.

During a lengthy and angry interview on the main Soviet news last night Mr Gorbachev said he had been furious when asked during a tour of Yerevan about the fate of the Karabakh committee, and of Nagorno–Karabakh itself.

He said the Government had given Rb500m to the small enclave and that people "who are struggling for power" were spreading malicious and unfounded rumours.

On the spot reports, Page 4

International aid pours in

By Michael Dixon in London

SACKS OF blankets, clothing and footwear for earthquake victims in Armenia were piling up in Soviet embassies across the world yesterday as countless ordinary people added their gifts to the relief efforts being mounted by governments, bodies such as the Red Cross and a wide variety of other organisations.

Soviet officials welcomed the "incredible" response as a worldwide demonstration of the co-operative spirit in international relations spoken of by Mr Mikhail Gorbachev in the US before he cut short his visit to take command of the recovery operations.

"We seem to have learned that we all live on one very small planet called Earth, and when one of us is in trouble, the neighbours should help," said Mr Grigory Karasin, political counsellor at the Soviet Embassy in London.

Mr Alexey Nikiforov, another counsellor, said so many nations had offered help since Wednesday's earthquake that it would be impracticable to name them. The International Red Cross said it had records of aid worth £11m ($19.5m) from 23 countries, but the figure was "changing hourly as pledges of aid continue to pour in."

He admitted that problems, including bureaucratic restrictions, had slowed down relief efforts at first – Mr Gorbachev had been severely critical of the Armenian local authorities' initial responses.

There was still urgent need, however, for drugs and medical supplies – artificial kidney machines suitable for children were a particular example – as well as for industrial equipment such as cutting and welding tools, and mobile electrical generators and lighting.

A 45-strong Israeli military team of doctors and rescue workers was reported to have flown out yesterday with a dog trained to detect people buried under debris.

Japan is to give Y1bn ($8m) aid, and Y100m in equipment for restoration work, medical supplies, blankets and tents.

A Swiss rescue team arrived on Friday, taking 8 tonnes of supplies including medicines, blankets, sleeping bags and tents together with 20 dogs.

The US sent a civilian relief team on Saturday consisting of six traumatologists, eight guides with trained dogs, and "various experts" including Dr Robert Gale, the American doctor who operated on survivors of the Chernobyl nuclear disaster.

The Pope has sent a $100,000 donation to the leader of the Armenian Orthodox Church, Patriarch Vasken.

The first British relief flight carrying 37 tonnes of food and medical supplies left London early on Saturday, followed by another carrying blankets, tents and heavy tractors, as part of £5m aid.

France has so far sent 335 rescue workers and 31 doctors as well as 55 trained dogs and 33 tonnes of equipment and medicine.

Ireland has pledged to send £100,000 worth of medical supplies early this week, and Jordan has already dispatched an aircraft with drugs and equipment.

Four plane loads of supplies have been sent from West Germany. Further relief, from both governments and private suppliers, was being prepared in Belgium and the Netherlands.

US budget problems increase

By Anthony Harris in Washington

THE SHAPE of the first budget of the incoming George Bush administration is likely to remain unclear until the final legislative deadline in October, according to the co-chairmen of the US National Economic Commission.

Meanwhile new problems have emerged for the final budget from President Ronald Reagan to be presented next month – the lame duck budget. The cost of re-starting the weapons-grade fissile materials plants is now reportedly put at $50bn over the next 20 years, and the Reagan budget itself involves $35bn of controversial cuts in the existing programmes.

The estimate for the budget timetable emerged in a television appearance by the co-chairmen of the National Commission, Mr Robert Strauss and Mr Drew Lewis.

The two, who represent the Democratic and Republican sides of the debate, agreed that the budget deficit could not be eliminated except with the aid of tax increases or reductions in existing health and welfare programmes. Both of these steps would be highly controversial.

Mr Strauss said that these arguments would not be resolved until the last moment and Mr Lewis added that the Commission's own report on deficit reduction would probably not appear until September.

Leaked reports from the Department of Energy on the nuclear programme say that two critical plants in the weapons industry will have to be relocated in more thinly populated regions, and that five new production reactors will be required.

It may be some weeks before this programme reaches the Congressional committees who will have to process it because it is being disputed by the Office of Management and the Budget, which objects to the proposed costs.

The OMB has also admitted publicly that the Reagan budget to be presented next month will contain some $35bn of programme cuts.

These include undisclosed cuts in the education programme, which President-elect Bush is pledged to expand.

The Secretary of Education, Mr Lauro Cavasos, has been quoted as saying: "I did the best I could".

Moscow plans to devalue rouble by at least 50%

By Quentin Peel in Moscow

DRASTIC plans for a devaluation of at least 50 per cent in the value of the Soviet rouble and major concessions to attract foreign investors have been announced by the Soviet Government.

The three-phase plan to devalue the rouble to a more realistic level, encourage a major expansion of Soviet exports, scrap continuing bureaucratic restrictions on Soviet trade and entice more foreign investors was published by the Soviet Council of Ministers.

It includes the establishment of a state-controlled auction for foreign currency among Soviet enterprises in the near future, followed by a commitment to devalue the official rouble by 50 per cent on January 1, 1990.

One year later, the Soviet authorities are promising a further adjustment, coinciding with the abandonment of the present system of currency "coefficients" which impose up to 6,000 different exchange rates for different imports.

For foreign investors, the new rules will mean that no maximum level is placed on foreign participation in joint ventures. Currently foreign participation is limited to a maximum of 49 per cent. Also, labour laws will be relaxed for such operations, top managers may be foreigners, and import tariffs will be reduced.

Another potentially important concession is that foreign partners will be allowed to pay for the expenses of their foreign workers in roubles, instead of in hard currency.

The moves are all part of a package, approved a week earlier by the ruling Politburo and now formally adopted by the Council of Ministers, intended to boost the fledgling Soviet export sector.

All Soviet enterprises which can compete on international markets will be allowed to export and import directly - although the Council of Ministers retains the right to veto such operations "when the activities of these bodies represents unfair competition, or when their activities harm the interests of the state."

Exporters will still be expected to be "self-financing" in hard currency, meaning that they must cover any import costs with export earnings - except that the new currency auctions to be held by the Vneshekonombank (the State For-

Continued on Page 18

Thorn selling chipmaker to Thomson-SGS

By Hugo Dixon in London

THORN EMI, the UK retail and technology group, is close to selling its Inmos semiconductor subsidiary to Thomson-SGS, Europe's second largest semiconductor company. The deal could be completed later this week provided regulatory hurdles in Europe and the US can be cleared.

In exchange for Inmos, Thorn will receive 10 per cent *of the shares of the enlarged group, which will have* operations in Italy, France and the UK. The shareholding is thought to worth about $200m to Thorn.

The proposed sale will be a further step in the dismemberment of the UK's indigenous semiconductor industry following the proposed GEC-Siemens bid for Plessey.

The sale would also be another step in the reorganisation of Europe's semiconductor industry with the aim of giving it sufficient economies of scale to compete with Japanese and US manufacturers. Thomson-SGS itself was formed last year with that aim in mind, as a joint venture between Thomson and SGS – owned by the French and Italian governments respectively.

Thomson-SGS is strong in memory chips, while Inmos is strong in microprocessors. A combined group would fit well in the two main families of semiconductors.

Inmos made a profit of £3.5m ($6.5m) in the six months to the end of September after many years of losses, while Thomson-SGS is also on the point of breaking even. Inmos' turnover in the current year is predicted by the company to reach $145m, compared to sales of $1.05bn at Thomson-SGS.

Inmos was created in 1978 by the UK's last Labour Government *as a vehicle for getting Britain back into the world* microelectronics industry. On the technical front, the company achieved considerable success by designing the revolutionary transputer, a particularly advanced microprocessor sometimes described as a "computer on a chip."

However, Inmos failed to make money and it was privatised in 1984 by the present Conservative Government via a sale to Thorn for £125m. At the time Thorn was pursuing an expansionist strategy, which soon went badly wrong. Much to blame were continued losses at Inmos, which is estimated to have cost the company nearly £300m altogether.

Thorn began looking for buyers for Inmos after a management shake-up in 1985. The new regime, under Mr Colin Southgate, the chief executive, decided Thorn had neither the financial nor the technical resources to make a success of Inmos.

Morgan Grenfell stakes for sale

By Ray Bashford and Nick Bunker in London

CONFUSION about how almost 9 per cent of the shares of Morgan Grenfell, the UK merchant banking group, will be dispersed emerged last night, after confirmation that Bond Corporation had sold a 29.9 per cent holding in Dewey Warren, the former insurance broker investment vehicle for Mr Robert Holmes à Court.

Dewey Warren holds 5.6 per cent of Morgan Grenfell, and the Australian group headed by Mr Alan Bond has 3.2 per cent.

All parties agreed last night that both Morgan Grenfell stakes were up for sale, possibly as a single package to an unnamed Japanese insurance company which has already held tentative talks with Mr John Craven, Morgan Grenfell's chief executive.

The buyer of Bond's 29.9 per cent stake in Dewey Warren is Robert Fraser Group, a privately-owned London merchant bank and insurance broker.

A deal giving Fraser 29.9 per cent of Dewey Warren in return for a consideration thought to be about £25m ($46m) was struck on Friday night. There is speculation that Robert Fraser hopes to merge Dewey Warren with Argyle Trust, the financial services group run by Mr Nick Oppenheim, partly as a way of ensuring that Dewey Warren retains its quotation on London's unlisted securities market.

In the last fortnight, Dewey

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THE MONDAY INTERVIEW

In spite of delays in trade, price and banking reform, Mr Leonid Abalkin, economics adviser to Mr Mikhail Gorbachev, Soviet President, is optimistic on achieving a successful perestroika by the year 2000.
Page 40

OVERSEAS NEWS

Agreement likely on EC securities

By David Buchan in Brussels

EUROPEAN Community finance ministers are expected to agree a plan for harmonised securities prospectuses on the capital markets of their 12 countries today, paving the way for passage next year of an investor protection measure that was first proposed in 1982.

To the relief of the UK and Luxembourg, the directive is not now expected to apply to Europe's $60bn-a-year Eurobond and equities sector.

Both governments have argued that there are few small investors in Euro-securities to protect, and that cumbersome regulation might drive the lucrative and mobile Eurobond *business out of the Community*.

Belgium, in particular, has sought protection for its relatively large number of private Eurobond investors. But if Belgium presses the issue it is expected to be outvoted.

The proposed compromise is that Euro-issues (bonds and shares marketed outside the countries of the currencies in which *they are issued*) will be exempt from the directive if they are not marketed through any "generalised advertising campaign or canvassing".

Euro-issues are to be *exempted* from the directive's information disclosure rules on the basis that they are "underwritten and distributed by a syndicate, two of whose members have their head offices in different member states".

Mainly at West German insistence, the prospectus information requirement in the draft directive has recently been made less onerous to accommodate small corporate issuers. But the UK has been asking for, and is likely to win, an exemption for its unlisted securities market.

The other measure on which EC *governments* may reach a common position today concerns a harmonised definition of banks' capital base, or "own funds".

Together with another directive on solvency ratios, the "own funds" directive forms the basis for the European Commission's proposed Second Banking Directive, which would give banks a single licence to operate across the Community on the basis of prudential control by their home state.

Soviet companies accused of export inertia

By John Lloyd in Moscow

A SENIOR Soviet foreign trade official has launched a scathing attack on the inertia of Soviet enterprises in the export field, called for the rouble to be made convertible as soon as possible, and urged the Soviet Union to enter the General Agreement on Tariffs and Trade.

Mr Yuri Pekshev, deputy chairman of the state foreign trade commission of the council of ministers, said in an article in Sotsialisticheskaya Industria that "the present situation [in foreign trade] is that a number of enterprises are not taking full advantage of the rights and opportunities given to them. Obviously this *is a result of their inability* to organise in this area, their inexperience, and in many cases too simply the absence of any desire to take on the responsibility.

"Direct foreign trading continues to be, as in the past, based more on an exchange of experiences than on the organisation of co-operation in production. Many managers have not overcome old attitudes, preferring the old approach of asking the state for money to import rather than developing their own exports.

"The majority of claims to the ministry [of foreign trade] are for more imports, as previously. There are virtually no claims for more exports." Mr Pekshev conceded that there had been a rise in exports in the first six months of 1988 over the same period in the two previous years, but said this was largely the result of more production of raw materials, and in some categories of semi-finished and consumer goods.

Mr Pekshev said: "The relatively backward engineering sector, about which much concern is now expressed, did not increase its share of exports. In these circumstances it is difficult to balance foreign trade turnover and establish the necessary foreign trade and build up the foreign currency reserves our country needs."

He says that to solve the problem of incentives in foreign trade, the rouble must be made convertible "in the nearest possible future". The further development of Soviet exporting, and of foreign currency financing, will require a "further rapprochement" with Gatt, "with our final intention to become a member of this organisation".

Madrid and unions head for strike clash

By Peter Bruce in Madrid

HOSTILITY between Spain's Socialist Government and the country's main trade union ahead of Wednesday's general strike increased at the weekend.

The Government has passed an emergency law decreeing high manning levels for public services during the strike and the unions have threatened new stoppages.

The Government appears to have given up any hope of stopping the strike, though it has persuaded a number of senior members of the main socialist union, UGT, not to support it. A senior Socialist Party member has also said the Prime Minister, Mr Felipe González, will probably call early elections if Wednesday's action is successful.

Mr Nicolas Redondo, the UGT leader, who has called the strike along with the country's other main union, the communist CCOO, denounced the Minimum Services Order.

The decree calls for half the workers in public transport companies to report for work. It is probably deliberately provocative, as the unions are strong in the sector and plan to halt public transport completely in Spain's major cities.

The unions have promised to maintain emergency services only, but their refusal to obey the weekend decree will place them outside the law and could provoke violence on Wednesday. The strike call is rapidly developing into a trial of strength, with the Government determined to allow non-strikers to go to work.

The two unions say they will be able to take 4m people out of work.

Mr Redondo said union disruption would continue if the Government did not reconsider their demands – chiefly, to shelve a youth employment plan designed to find 800,000 jobs by subsidising employers to hire young people on short-term contracts and at the minimum wage.

The union unrest is also threatening to upset Spain's first term as President of the European Community, which starts next month and which could limit Mr González's ability to respond to the union challenges.

An early election, brought forward from 1990, would play havoc with the EC presidency, but Mr González has not ruled out the possibility.

Showdown talks on Koor today

By Andrew Whitley in Jerusalem

KOOR, the embattled Israeli conglomerate, meets its foreign creditors in London today, for a likely show-down.

The meeting was originally called by Bankers Trust of New York, whose action on October 9 in applying to a Tel Aviv court for compulsory winding-up of Israel's largest company sparked the crisis.

Mr Benjamin Gaon, Koor's chief executive, will be in the chair today, after the Israelis also called a creditors' meeting, ostensibly to brief bankers on a recovery programme.

Lawyers acting for Bankers Trust have submitted an affidavit accusing Dr Shimon Ravid, Koor's finance director, *of fabricating evidence. The* new turnaround plan was summarily dismissed.

Bankers Trust has now widened the issue to include Hevrat Ha'Ovdim, Koor's labour federation-owned parent, and Bank Hapoalim, the leading Israeli bank. Hapoalim, another subsidiary of Hevrat Ha'Ovdim, is by far Koor's largest creditor.

The Bankers Trust affidavit insists on the need for an independent liquidator. In the meetings, Koor is expected to confirm its intention to sell control, if necessary, in its largest subsidiary, Tadiran. "We have no restrictions on the sale of equity," Mr Gaon said.

An independent auditor has given a favourable first impression of the programme, which involves a drastic slimming-down of Koor.

Mr Gaon says he is still seeking an out-of-court settlement with Bankers Trust before December 20, when the Tel Aviv District Court is to deliver its ruling. He insists he will not make separate arrangements with one creditor to the detriment of others.

However, the patrician New York banks show no sign of wanting a compromise on its demands.

Second banker charged in Koskotas case

A SECOND banker was charged in Athens with embezzlement and forgery in connection with a banking scandal that has shaken Greece's Socialist Government, police said, Reuter reports from Athens.

Mr Panayotis Vakalis, former vice-president of the Bank of Crete, asked the Public Prosecutor for 48 hours to prepare his defence, police added. The request was granted.

Mr Vakalis is a close associate of the Greek-American press and banking tycoon Mr George Koskotas, the man at the centre of the $200m (£111m) scandal. Mr Koskotas fled after being charged with embezzlement and forgery at his privately-owned Bank of Crete. He was arrested in the US late last month and Greece has requested his extradition.

Two senior ministers of the Government of Mr Andreas Papandreou have resigned over the case.

Opposition parties are united in their condemnation of the Government's handling of the case and allege some ministers tried to cover up the affair. Mr Papandreou has said the scandal was a plot aimed at undermining the Government and rejected opposition calls for early elections.

US wholesale trade up 1.9% in value

OCTOBER US wholesale trade rose in value by 1.9 per cent from September and 8.5 per cent from October 1987, the Commerce Department announced. Anthony Harris reports from New York.

This was in line with trade expectations, and stock/sales ratios were little changed on the year.

Pinochet regime charges Communists

By Barbara Durr in Santiago

THE PINOCHET Government has filed charges against the Chilean Communist Party, accusing it of inciting rebellion and links with guerrillas.

Communist leaders had said that violence was still a legitimate tool against the Pinochet regime, that they continued the strategy of popular uprising, and that they had trained militarily.

Interior Minister Mr Carlos Carceres said: "The Government will not tolerate this."

Talks on miners' strike in Peru

MR Luis Negreiros, secretary-general of Peru's ruling APRA party, met miners' leaders at the weekend to discuss ending a 57-day strike which has cost more than $400m (£222m) in lost export revenue, Veronica Baruffati reports from Lima.

A union leader said the miners would only lift the strike if an agreement with the Government was reached.

Miners' main demands are collective bargaining and monthly wage adjustments according to inflation.

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DECEMBER 12 1988

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Madrid and unions head for strike clash

By Peter Bruce in Madrid

OVERSEAS NEWS

Departure of Miyazawa clears way for tax bills

By Ian Rodger in Tokyo

THE WAY finally looks clear for the Japanese Government to pass its controversial tax reform legislation, following Mr Kiichi Miyazawa's resignation as Finance Minister on Friday.

Two of the four main Opposition parties lifted their blockade of parliamentary proceedings immediately after learning of the resignation. Debate on the six tax reform bills, which include provisions to introduce a value-added tax and to reduce discriminatory taxes on imported liquor, will resume this morning in the upper house of the Diet.

Public hearings have been scheduled for Friday, after which the Goverment can force a final vote, as it did in the lower house last month. The current Diet session is due to continue until December 28, so the Government appears to have plenty of time to pass the legislation, even if interruptions – such as the death of Emperor Hirohito, who remains gravely ill – occur.

The Opposition parties had united in blocking parliamentary business because of inconsistencies in the explanations given by Mr Miyazawa of the involvement of a former aide in the Recruit scandal. Mr Miyazawa chose to resign rather than meet the Opposition's demands for documentary evidence to support his claims.

The Democratic Socialist and Komei parties, which are weakened and fear the Government might call an election if the tax reform package remains stalled, then quickly agreed to resume proceedings.

Despite the Miyazawa resignation, the Recruit scandal, in which several leading businessmen and aides to senior politicians made windfall profits on the flotation of a property company, Recruit Cosmos, will rumble on. But the ruling Liberal Democratic Party hopes that pressure on leading politicians will subside. Investigations by the public prosecutor's office appear to be focusing on links between the Recruit group, Nippon Telegraph and Telephone and the administration of former Premier Mr Yasuhiro Nakasone.

Mr Miyazawa's resignation is unlikely to have much effect on the political or economic scene in the immediate future. Mr Noboru Takeshita, the Prime Minister, who has taken on the finance portfolio temporarily, said on Friday that the Government would maintain its fiscal and monetary policies aimed at sustaining non-inflationary growth based on strong domestic demand.

Why Iran is carrying out purge of the clergy

A new bout of political infighting has started, **Scheherezade Daneshku** writes

TWO WEEKS ago, a special clerical court in Iran announced the execution of six members of the clergy, in the first official disclosure of clerical executions for over a year. The announcement has raised speculation that a new round of political in-fighting among Iran's predominantly clerical leadership is under way.

The six, who number two former MPs among them, Hojatoleslam Fathollah Omid-Najafabadi and Seyyed Ali Naqi Khavari Langarudi, have been executed on charges of corruption, according to the clerical court.

Three laymen were also executed. All nine were convicted of "the formation of corrupt bands, corrupting a number of individuals, deep moral and financial corruption, insulting Islamic sanctities, and committing acts against the code of the clergy".

Although the lines of division in Iran's political battlefield are blurred, as a result of struggles which are mainly for power rather than ideology, it is clear the executions are a continuation of the Government's crackdown on associates of Mehdi Hashemi, who was related to the country's leader-designate Ayatollah Montazeri.

Seyyid Mehdi Hashemi, the brother of Ayatollah Montazeri's son-in-law, was arrested in September 1986 and executed a year later on corruption charges.

His connections with armed groups abroad, his commitment to the export of the revolution through freelance interference in domestic Lebanese politics, and his disclosure of the US dealings with Iran in what became the Irangate scandal, challenged the authority of central government policy directed by the country's parliamentary Speaker, Hojatoleslam Hashemi Rafsanjani.

Hojatoleslam Omid-Najafabadi, one of those recently executed, was an associate of Mehdi Hashemi. The two were responsible some years before the revolution for the murder (among many others) of a senior Isfahani clergyman, Ayatollah Shamsabadi, for refusing to co-operate with them.

After the revolution, Omid-Najafabadi was appointed Isfahan's city judge and supervised the execution of many of the old regime. However, he and other members of the group fell out of favour as Mehdi Hashemi's power grew.

Why has the Government, under the political direction of Rafsanjani, waited to execute Omid-Najafabadi and his associates until now instead of alongside Mehdi Hashemi a year ago? It seems likely that while the war with Iraq was still on, moves to execute groups of the clergy would have proved too divisive in so sensitive a period.

Similarly, attempts to eliminate the most dangerous opposition groups, including those working outside the framework of the Islamic Republic such as the Mujahedin and the Tudeh (Communist) Party, have been stepped up in the period since Iran's compromise acceptance of a ceasefire in the Gulf War, with hundreds if not thousands of executions reported by exiled Iranians in the West.

It is also possible that the Government may wish to declare an amnesty on the occasion of the Islamic Republic's 10th birthday next February, and will want to be sure that those released will not pose a threat.

The past few weeks have also seen the murder of Iran's first post-revolutionary Health Minister, Dr Kazem Sami. Dr Sami was a secular politician who used to head the Revolutionary Movement of Iranian Moslems (JAMA), a left-wing organisation favouring administration by popularly-elected councils. He was closely associated with the Islamic Republic's first Prime Minister, Mehdi Bazargan; both were one-time students of Ayatollah Montazeri.

Dr Sami and Ayatollah Montazeri had spent years in the Shah's prisons together. A practising physician, Dr Sami was also Montazeri's doctor and had been to see him the day before Dr Sami was fatally wounded by a knife attack in his surgery.

There is speculation that when Ayatollah Montazeri takes over from Ayatollah Ruhollah Khomeini as spiritual leader, Dr Sami would have become a strong candidate for Prime Minister. This would reinforce the fears of some clergymen that Ayatollah Montazeri favours the gradual withdrawal from power of the clergy in favour of secular politicians.

Dr Sami's funeral was attended by thousands of supporters and there have been reports of demonstrators calling for justice. Eighty Iranian MPs have signed a petition calling for the swift capture of his murderer, and the authorities now say they have identified the killer.

The delay in government action has led to an increasingly vocal suspicion that the murder was carried out by a faction within the Government and possibly by the country's secret service, Savama.

It is too soon to be able to draw any firm conclusions from the Sami murder. However, it is clear that Rafsanjani and the pragmatic faction are still under pressure from other groups in the struggle for the consolidation of power.

While Ayatollah Khomeini lives, this struggle may see no resolution, since Khomeini is concerned to see unity in government rather than the triumph of one group over another.

While Khomeini is alive, Rafsanjani also has the opportunity to lay more effectively the groundwork for a firmer power base through constitutional and other changes. There are already moves afoot to alter the constitution. At recent Friday prayers, President Ali Khamenei spoke of the need for changes.

Iran will spend more than $750m (£416m) in the first phase of its post-war reconstruction, largely on rebuilding its oil industry and restoring electric generation capacity devastated in the eight-year war with Iraq, the Islamic Republic News Agency (IRNA) said, AP reports from Nicosia.

The agency said the 630,000-barrel-a-day capacity Abadan oil refinery, the biggest in the world, would resume partial operations within four months. Some $500m allocated for reconstruction will be spent during the current Iranian fiscal year.

Polisario apologises for downing US aircraft

POLISARIO guerrillas fighting against Morocco for an independent Western Sahara said yesterday they shot down a US-hired aircraft, killing all five American aid workers on board, Reuter reports from Algiers.

A statement from the headquarters of the Marxist Polisario Front apologised to Washington for the attack last Thursday and said it was a mistake which was deeply regretted.

The communiqué, issued in the name of Polisario's civilian wing, the Saharan Arab Democratic Republic, promised that the bodies of the dead would be returned without delay.

The organisation said its forces fired ground-to-air missiles at two DC-7 aircraft – hired to combat the worst locust plague for more than 50 years – after the aircraft were sighted flying at low altitude.

Polisario said the two aircraft were confused with Moroccan C-130 military aircraft. It said the incident took place 18 miles from Moroccan defence lines at Gart El Hemmer. The second aircraft was hit, but landed safely in Morocco.

The Algerian-backed Polisario Front has been fighting Morocco for 13 years.

Seoul moves closer to support for Daewoo

By Maggie Ford in Seoul

THE finance committee of South Korea's National Assembly decided at the weekend to allow the Korea Development Bank to raise an extra Won 500bn (£400m) enabling it to raise its stake in the troubled Daewoo Shipbuilding and Heavy Machinery.

Parliamentary approval of a bill to increase the paid-in capital of the state-owned bank indicates that government support for Daewoo has moved a step closer. The group had asked the Government to instruct the bank to inject Won 300bn into the subsidiary, bringing the bank's stake up to 49 per cent.

Daewoo's founder, Mr Kim Woo Chong, has faced strong pressure to contribute to the rescue of the shipbuilder by selling other profitable businesses such as a securities firm, a big hotel and a chemicals company. Daewoo Shipbuilding has debts of Won 850bn and interest costs are threatening the health of the group.

Mr Kim reportedly told the MPs that he would dispose of five subsidiaries, not including the securities firm which is the market leader, raising Won 200bn. Bargaining is expected to continue, however, over Daewoo's share of the rescue package.

Meanwhile, a strike at the shipyard owned by Samsung, another big South Korean conglomerate, has focused attention on the company's ban on trade union membership. More than 10,000 workers and officials of the Federation of South Korean Trade Unions demonstrated at the National Assembly and the company's headquarters demanding that the group allow unions.

The federation has called for a nationwide boycott of Samsung's products, claiming the company has acted illegally by setting up a "company union" at the shipyard and denying membership to ordinary employees.

Istanbul holds returned exiles

By Jim Bodgener in Ankara

ISTANBUL police yesterday still held three out of eight left-wingers who went into self-imposed exile after the 1980 military coup but returned on Saturday to test the Turkish regime's tolerance. Five others were turned away by airport police at Ataturk airport.

The three detained were Haluk Tan Ipecki, Nurettin Yalcin, and Yuksel Selek. The eight, who came in on two flights, were accompanied by their lawyers.

There appeared to be some confusion on the part of the authorities about how to deal with the returnees, who included Mr Nafiz Bostanci, a prominent activist with the former left-wing trade union confederation, DISK.

The eight had advertised their arrival in advance, but the Istanbul prosecutor's office was apparently furious with the airport police, having already issued a warrant for the detention of Mr Bostanci and two others.

Egypt holds hardliners

By Tony Walker in Cairo

MORE THAN 100 people, many of them Moslem hardliners, were ordered detained at the weekend for further investigations under Egypt's emergency laws.

This followed serious disturbances late last week in the Cairo suburb of Ain Shams in which a policeman was killed.

Egypt's security forces had rounded up more than 300 people in Ain Shams since last Wednesday in an apparent blitz against an extremist Moslem group. The district was the scene last August of serious rioting.

Mr Zaki Badr, Egypt's Interior Minister, threatened stronger action against extremists following the stabbing of a plainclothes policeman on Thursday.

"We will confront terror with force and any attempt to damage the country's stability will not succeed," he declared.

The latest flare-up involving Moslem hardliners coincides with growing signs of unhappiness in Egypt over economic conditions.

Four Tibetans feared dead in clash with troops

By Peter Ellingsen in Peking

UP TO four Tibetans may have been killed when Chinese forces opened fire on human rights demonstrators in Tibet's capital Lhasa at the weekend.

Officials said a monk was killed and, according to unconfirmed reports, three more people died. According to witnesses, police opened fire after demonstrators gathered in the square in front of the Jokhang, Tibet's most sacred Buddhist temple, shortly before noon on Saturday. One witness said about 30 Tibetans wearing masks marched into the square carrying banners and a Tibetan flag to commemorate the 40th anniversary of the United Nations declaration of human rights.

A crowd surrounding the marchers began throwing rocks at police, who first used tear gas and opened fire. It was not clear which came first, the rock-throwing or the shots, the witness said. According to officials, police fired warning shots into the air and hit some people by accident.

When the crowd refused to disperse after warnings, police had no choice but to shoot in the air and some were hit by stray bullets, officials said.

The official Chinese newsagency, Xinhua, said only that a group of monks and nuns began a riot after distributing leaflets advocating Tibetan independence.

It was the first serious confrontation between pro-independence Tibetans and Chinese forces since the riots which broke out last September and again in March.

At least six and possibly as many as 10 people were killed in the March violence and Tibet was closed to foreign journalists.

OVERSEAS NEWS

Western reporters were allowed into Armenia at the weekend, for the first time since the devastating earthquake last week. Below, two of them give accounts of conditions after the disaster

'Crush syndrome' kills survivors of earthquake

By Robin Lodge of Reuter in Yerevan

AT THE main surgical hospital in the Armenian capital of Yerevan, earthquake survivors are dying from "crush syndrome", and a shortage of kidney machines that could save them.

"We are losing people because we haven't got the equipment," Dr Emma Kostina declared angrily as she gestured at a ward packed with people plucked from the ruins of Leninakan or the "lost town" of Spitak.

"If you write anything, tell them to send us equipment," Dr Kostina told a group of foreign reporters flown from Moscow to Armenia three days after the quake which killed tens of thousands of people in the Transcaucasian republic.

Dr Ruben Ovaskyan, the hospital's chief doctor, said more than 500 quake survivors were being treated and 79 more had been brought in on Saturday, almost all of them in critical condition.

Over 80 per cent were suffering from "crush syndrome" – damage to tissues which can lead to kidney failure when the human body is subjected to compression under heavy weights. "This is one of the worst conditions known to modern medicine," said Dr Ovaskyan. "It is largely irreversible."

As he spoke in the bed-lined corridor of the hospital, the Yerevan branch of the Soviet Institute of Surgery, his voice was drowned by an ambulance siren.

"There has been a constant stream of ambulances ever since the disaster. We have no more room, but we can't turn people away," he told the reporters, his face lined with fatigue.

His most serious problem was a chronic shortage of kidney dialysis machines. Two had been delivered from Japan and France in the last 24 hours to supplement the hospital's one American model, Dr Ovaskyan said.

In Moscow, his words were echoed by Dr Mikhail Putintsev at the Soviet capital's Sklifosovsky Institute, a major accident hospital to which many of the quake victims had been flown to ease the pressure in Yerevan.

"When people are crushed," Dr Putintsev explained, "it pushes poison into the kidneys. The only way to save them is with these machines, with filters and solutions that flush out the kidneys."

Dr Putintsev told a reporter for the American NBC television network he had seven people already suffering from crushing.

"But my one machine is old-fashioned and they take a lot of time. And I have only enough filters and solution to save two people," he said, holding up a phial of solution he said was made in West Germany.

In the Yerevan hospital, pale, grey faces glazed with sweat and contorted with pain, stared out from beds packed together in every available space.

Men, women and children lay side by side, surrounded by weeping relatives.

In the corner of one ward, a middle-aged woman sat by her 20-year-old daughter in clear horror and disbelief. The girl was lying with unseeing eyes on a bloodstained mattress, a tangle of tubes emerging from under the blankets.

"Why? Why? Why?" the mother repeated, her whole body shaking with grief.

In the next bed lay another woman in her 20s, connected to a kidney machine. "I've lost my mother and my grandmother," she said in a voice drained of emotion. "I can't remember anything. When I came to, they were helping me out."

Few of the injured had a clear idea of what had happened. Ms Alla Pogosyan, 33, from the town of Stepanovan, said she had been visiting her niece in a fourth-floor apartment when the quake struck.

"I suddenly found myself on the ground," said Ms Pogosyan, her face a swollen mass of cuts and bruises. "I put out my hand and someone took it. I realised I had lost consciousness."

Mr Alexander Mikaelyan, the hospital director, said they were handling only emergencies. "Everyone's condition is serious – or they wouldn't be here," he said. "Eighteen died today."

He said that when first news of the quake came, all but the most seriously ill patients already in the hospital had been sent home to make way for the injured.

A young doctor pushed past to reach a woman whose head had suddenly lolled over the pillow. Muttering encouragement, he began gently slapping her face, but her eyes remained glazed and fixed and she showed no sign of response.

Many of the injured were from Spitak, a town of 30,000 inhabitants, which was completely flattened by the quake.

Mr Aikas Markanyan, a 44-year-old lecturer, told the visiting reporters from his bed that he was in his institute when the earthquake struck just before midday. "I took half a step and found myself under the rubble," he said.

A nurse quietly confided that his back was broken, and both legs were paralysed.

Rescue workers find 'nothing left to restore' in devastated Spitak

By Mark Porubcansky of Associated Press in Yerevan

RESCUERS dug through mountains of rubble, searching for survivors of a devastating earthquake in the southern Soviet Union that wiped one town off the map and killed at least 40,000 people.

Piles of coffins and sobbing survivors flashed across television screens on Saturday night as rescue workers from around the world raced to save people still trapped and to help thousands of injured and homeless people.

Western planeloads of doctors, search dogs and medical supplies arrived on Saturday as people from 40 countries joined the rescue effort. Authorities opened previously closed areas in an unprecedented acceptance of foreign disaster aid.

Spitak was described by Soviet authorities as a total loss. "Spitak won't be restored, because there is nothing left to restore," said Mr Yuri Chaplygin, a spokesman for the Soviet Council of Ministers in Moscow.

"A new city will be built on the same spot."

College students who helped in the rescue efforts returned to Yerevan, the capital of Armenia, with tales of vast destruction.

"Five homes remain in Spitak – that is all. The rest are destroyed. You can't describe it. You have to see it." Mr Arsen Minasyan, a student at an agricultural institute, said.

In Yerevan, helicopters whirred constantly overhead, transporting dead and wounded from the disaster area 47 miles northwest.

A small group of foreign reporters, the first allowed into Armenia since Wednesday's earthquake, saw roads around Yerevan's Zvarnots Airport clogged with relief vehicles. Fog slowed an emergency airlift of supplies and people from throughout the Soviet Union and abroad.

Television began its evening news broadcast with sombre music and shots of the red state flag flying at half-mast at the snow-covered Kremlin.

Photographs showed Mr Mikhail Gorbachev and his wife with expressions of shock on their faces, visiting the disaster area, consoling survivors and speaking to some of the thousands of rescuers.

Armenia's wrecked roads and railways hamper relief effort

By Quentin Peel in Moscow

RESCUE workers still fighting to save survivors from the Armenian earthquake face huge logistical problems in getting supplies and equipment to the disaster area, Soviet officials have revealed.

Yesterday's new tragedy, when a military transport aircraft crashed approaching the airfield at Leninakan, was a ghastly reminder of the chaos facing the relief effort, with a hopelessly inadequate infrastructure already shattered by the quake.

The main railway line to Leninakan, the largest town to be devastated by the quake last week, was ripped up over a distance of 80 kilometres, and hundreds of road bridges and tunnels in the mountainous area were damaged.

Power supplies were knocked out throughout the region, where 700,000 people lived before the tragedy, now estimated to have caused a death toll of between 40,000 and 45,000.

The rescue effort has been severely hampered by the lack of heavy lifting cranes to shift the concrete slabs from dozens of modern blocks of flats, which appear to have collapsed like houses of cards.

The main road from Yerevan to Leninakan is reported jammed with vehicles of Armenian families, trying to bring relief supplies or rescue their relations from the disaster area.

The tiny airport in Leninakan, which normally takes only four or five flights a day, has had to cope with 100 flights a day or more, using an emergency air strip cleared by military construction brigades.

The only rail line open nearby runs from the neighbouring republic of Azerbaijan, but both railway track and electricity lines on the main line from Tbilisi to Yerevan have been cut.

Mr Yuri Chaplygin, deputy chief spokesman for the Soviet Council of Ministers, said 35,000 cubic metres of earth needed to be moved to reopen the rail line, with huge volumes of supplies and equipment, including coal, diesel fuel, buses and other vehicles, waiting to get through.

Two freight trains were derailed by the earthquake, and five other locomotives seriously damaged.

Emergency power supplies from two mobile turbo-generators in Leninakan are now available only for medical clinics, blood transfusion units and fire-fighting units, he said.

"The priority task is the fastest possible clearing of collapsed buildings and the rescue of victims," Mr Chaplygin said. "Much equipment is moving to the disaster area by road. More than 500 units of lifting equipment will have been sent to the disaster area [by Sunday]."

"First of all, we need cranes," he said. "The Ministry of Defence has provided 80 transport planes. They are beginning the process of delivering the cranes. This is the most burning issue now."

The two nuclear power reactors in Armenia are said to have been undamaged by the quake, which measured 5.5 on the Richter scale in their immediate vicinity – just short of the level of 6.0 at which they are supposed automatically to shut down.

Officials in Moscow still have no information about the situation at mines in the area, where hundreds of miners would have been underground at the time of the earthquake. Mine rescue experts are among those who have been sent to the area.

No advance warning was given of the earthquake, which reached 7 on the Richter scale at its epicentre when it struck on Wednesday.

Compromise hint in autonomy pleas at Latvian meeting

By John Lloyd, recently in Riga

A GATHERING in Riga, the Latvian capital, over the weekend has pointed shakily towards a form of republican nationalism which stays within the limits of Soviet reformism, but which is aimed to satisfy some of the demands of the Baltic republics for autonomy.

The conference, named simply Forum, was held under the aegis of the Latvian Supreme Soviet (parliament), and had the blessing of both the Soviet and the Latvian Communist Party.

Its deliberately conciliatory style could not, however, block out voices of real anxiety over Latvia's future, even its future existence. Mrs Ilga Apine, a historian at the Latvian state university, told the gathering: "The Russification of Latvia started in the 18th century. It is on the verge of being successful."

The conference drew together over 900 delegates from all over Latvia, elected from constituencies and from ethnic groups, religious denominations and even the military.

Although it was strongly influenced by the autonomous ideas of the Latvian Peoples Front, it deliberately promoted other voices, including that of the International Front, formed to a large extent in reaction to the renaissance of nationalism represented by the LPF and to a more extreme degree by the Latvian Independence Party.

Its explicit purpose was to promote respect for all nationalities within the republic – the Latvians are actually in a minority, with 40 per cent of the population – together with a more explicitly Latvian cultural hegemony.

Mr Anatoly Gorbunnov, the suave, youngish president of the Supreme Soviet, presided over the meeting and is chairman of its executive council.

The two main concerns, as displayed by a stream of pre-chosen speakers at the rostrum, were the Latvian language and the economy. Mr Abram Klockins, a professor of journalism, said: "There never was any real policy of friendship among the peoples of this nation. The leadership cynically betrayed Leninist principles. We cannot forget that very often official speeches in Latvia were made only in Russian, even official speeches on the anniversary of the creation of Soviet Latvia were in Russian."

Mrs Rita Kakaine, head of the Riga Microbiological Institute, said that the towns of Riga, Jurmala and Daugavpils were seriously polluted, that cancer deaths, especially among children, were rising, and that chemical and other discharges from plants were polluting the Bay of Riga.

Interviewed separately, Mr Dounis Ivans, the 33-year-old president of the Popular Front, said the forum would "change the psychological atmosphere" of Latvians, by letting them see they could change society by their own actions. He said the Front might evolve into a political party in the future."

It appears that much of the official side of Forum, which will have no executive power but appears to have been formed as a broad-based support for Latvia's leadership, is reconciled to making a series of compromises with Moscow on autonomy over the next months.

Significantly, Mr Janis Aboltins, deputy head of the Latvian state planning agency, said the question of whether land and enterprises were owned by the republic or the central state was still "open", a moderation of the previous position that it should be the possession of the republic – a stance already adopted by neighbouring Estonia.

Yet in the conference hall, the most enthusiastic applause was reserved for those who spoke longingly of the 20 years of Latvian independence and for those who criticised the International Front.

Mr Viktor Avolins, editor of the radical journal Daugava, drew cheers when he said that the International Front – supported mainly by Russians – was "based on autocracy, bureaucracy and on principles of stagnation" and was "using the upsurge of the Latvian nation to organise political clashes. The 'masters' and bureaucrats don't want to let power out of their hands – or Marxist ideas out from beneath their bottoms," he said.

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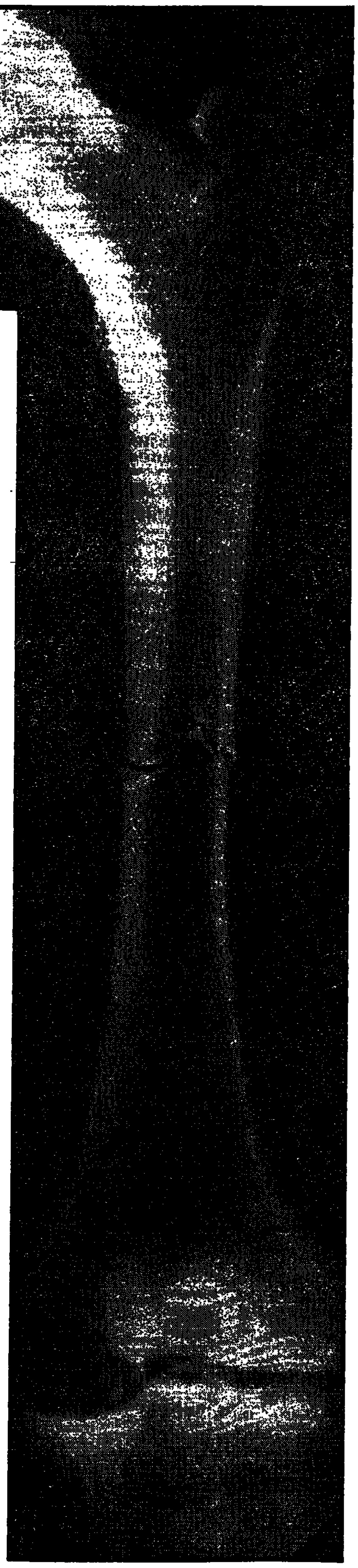

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OVERSEAS NEWS

Sector barriers would remain bar to EC market unity

Study says proposals offer only modest gains in efficiency and price cuts. Guy de Jonquières writes

EUROPEAN Community proposals to remove internal trade barriers in food and drink, pharmaceuticals and retail financial services are unlikely fully to unify Community markets and may produce only limited economic benefits, according to the Henley Centre.

Studies by the centre, an independent UK consulting firm, say the proposals either do not attack the most important market barriers in those sectors or offer only modest potential efficiency gains and price reductions.

The centre believes the scope for gains is bigger in corporate banking, air transport and road haulage.

It says EC proposals for the car market could help remove price anomalies and cut costs, though some of them parallel actions which the industry is taking anyway.

The studies' conclusions are more cautious than the so-called Cecchini report published by the European Commission last spring. It forecast that the single market programme could raise EC economic growth by between 4.5 per cent and 7 per cent.

The studies' conclusions about each sector are:

Food and Drink: The extreme fragmentation of the EC market, evident in the limited trade and large retail price differences between countries, is due only partly to restrictive national rules and differing tax rates.

Removing the most obstructive national rules, such as

'Fears that the UK Financial Services Act will create an exodus of financial services companies from London after 1992 are probably exaggerated'

France's ban on aspartame sweeteners and Denmark's ban on sales of drinks in cans, could reduce some disparities.

Harmonisation of national excise duties on alcoholic drinks would also significantly alter consumption patterns and profit margins.

Many barriers are due to widely differing local habits, tastes and distribution systems. Abolition of West Germany's much-criticised beer purity law is unlikely to make it easier for foreign brewers to increase their sales there.

A unified market would offer few economies of production scale. UK beer, chocolate and crisp producers are already operating at optimum scale and would get no real cost advantage from increasing output to serve the rest of the EC.

The scope for common EC-wide brands is small because local tastes vary widely. Recent food industry mergers are explained by the difficulty of exporting brands across frontiers and changing consumer tastes, not by producers' desire to rationalise production and achieve larger scale economies.

Retailers' ability to source products more widely, centralise purchasing and expand own-label brands may strengthen their bargaining power with food manufacturers after 1992.

Pharmaceuticals: Inefficient duplication of capacity has been encouraged by countries such as France, Italy and Spain, which use approvals and pricing regulations to force companies to produce locally. Consumers do best in countries where the economic contribution of local pharmaceuticals companies is small.

EC proposals to increase price transparency were unlikely to yield results quickly, and the main pressure for lower prices would probably come from concern by national health services at rising costs.

Centralised EC registration of pharmaceuticals could benefit efficiency but was likely to be resisted by governments, while prospects of applying the EC "mutual recognition" principle to the sector seemed remote.

"Moves towards unification of the ethical pharmaceuticals

1992 THE EUROPEAN MARKET

market will be at best faltering and extremely slow," the study says.

Financial Services: Though proposed EC deregulation will remove some obstacles, the real barrier to transnational success in retail services will remain the need to have outlets in countries where services are provided.

Hence the EC's proposals would probably have minimal impact. Price differences between countries would persist, though they might be narrowed by competition in areas such as credit cards.

The prospects in corporate banking are brighter, because of opportunities in countries where such services are highly priced.

In countries such as West Germany, newcomers would still have to overcome obstacles such as the vertically-integrated structure of banks and their long-established relationships with local customers.

Fears that the UK Financial Services Act would create an exodus of financial services companies from London after 1992 were probably exaggerated.

However, consumers risked being confused by having to choose between UK rules and those applied elsewhere in Europe.

Cars: The proposed ending of national type approval would yield only limited gains in production efficiency because most European volume carmakers were already operating at levels which maximised economies of scale.

Single type approval could increase manufacturers' flexibility and their ability to source more widely, as well as enabling them to spread development costs over more units.

Manufacturers are already moving voluntarily towards technical harmonisation and shared development costs.

EC proposals would narrow national differences between car prices and stimulate sales in Britain and Spain. However, the proposals would not equalise prices because they did not cover national car taxes and because of practical problems for consumers in buying cars across borders.

Fiat was most at risk from increased Japanese car imports because of its heavy dependence on its home market. EC import restrictions could have limited impact because they would encourage Japanese car makers to move up-market and produce inside the EC.

Aviation: The huge potential for cost savings through deregulation would probably not show through in lower fares until the share of routes guaranteed to national flag carriers fell below 40 per cent. In the longer run, incursion by US airlines was likely to offer major competition in the EC.

Road haulage: The planned removal of EC customs barriers, of restrictions on cabotage and of quotas on international haulage together offered big potential efficiency gains.

However, these were hard to quantify because some border delays coincided with drivers' rest periods and because factors other than cabotage curbs were responsible for lorries making empty return trips.

* *The United Markets of Europe; Henley Centre, 2-4 Tudor Street, London EC4Y 0AA. Tel: 01-353 9961. £1,500.*

US and Europe warned against trade blocs

JAPANESE and Australian politicians warned the US and Europe yesterday against forming blocs that hinder free trade, and urged more co-operation in the Asia-Pacific region, Reuter reports from Tokyo.

Mr Hajime Tamura, Japan's Trade Minister, and Mr Malcolm Fraser, the former Australian Prime Minister, voiced concern that Europe's economic integration in 1992 and the recent US-Canada free trade pact could end up being protectionist.

"I know exactly what they have done," Mr Tamura told an economic forum. "I've been bashed and bashed by America and Europe [while I've been Trade Minister]."

To help promote regional co-operation, Japan should buy more from its Asian-Pacific neighbours, Mr Tamura added. "We should be an import superpower."

Mr Fraser called for Japan and Australia to take the lead in forming a trade association in the Asia-Pacific region designed to lead to more open markets worldwide.

The association would be open to countries outside the region, but would also help shield smaller Asian-Pacific nations against protectionism.

Both men seemed unconvinced by assurances from EC and US representatives that economic integration would be beneficial for everyone.

"It should be viewed as an opportunity, not a threat," said Mr Andries Van Agt, EC ambassador to Japan. Seeking to rebut charges of protectionism, Mr Van Agt stressed that Japan exported 15 times as many cars to Europe as it imported from the region.

But Mr Tamura rejoined: "You have to ask yourself why Europe buys 15 times more."

Mr Fraser recalled how Australia lost out when Britain joined the EC and had had to turn more to Japan to sell its goods.

"The [US-Canada] agreement... is not likely to have adverse economic consequences for the rest of the world," Mr Bruce MacLaury, president of the Brookings Institution, a US "think tank", said.

But again Mr Fraser seemed unconvinced, saying that both Europe and North America had blocked progress at the just-completed multilateral trade talks in Montreal.

SHIPPING REPORT

Tanker market levels off

By Kevin Brown, Transport Correspondent

THE steady improvement in the tanker market levelled off last week, but brokers said rates remained good in most loading areas.

There was little chartering on the open market, partly because charterers sought to dampen the rapid rate rises of the previous week by doing business in private.

However, Galbraith's, the London brokers, said they expected high rate levels to be maintained in the short term because of charterers' desire to lift oil before Opec production cuts come into force.

Galbraith's also said that part of the increase in rates has been due to a shortage of tonnage, and greater availability of ships in January might cause rates to ease.

Several large ships were fixed in the Gulf, including a 305,000 dwt re-let fixed by Mobil to the West at Worldscale 62½, and a 220,000 dwt ship fixed at Worldscale 105 to the East by Chevron Singapore.

Brokers said vessels in the 1m barrels class were being fixed above Worldscale 90 for voyages to the US.

WORLD ECONOMIC INDICATORS

INDUSTRIAL PRODUCTION (1985 = 100)

					% change over previous year
	Oct '88	Sept '88	Aug '88	Oct '87	
US	116.6	112.1	111.9	110.9	+5.1
Japan	114.0	114.9	114.3	106.9	+6.6
W Germany	107.1	108.0	110.2	103.8	+3.2
	Sept '88	Aug '88	July '88	Sept '87	
France	109.7	109.6	109.6	104.5	+5.0
Netherlands	110.0	107.0	112.0	104.0	+5.8
UK	110.6	111.1	110.6	106.5	+3.8

Source: (except US) Eurostat

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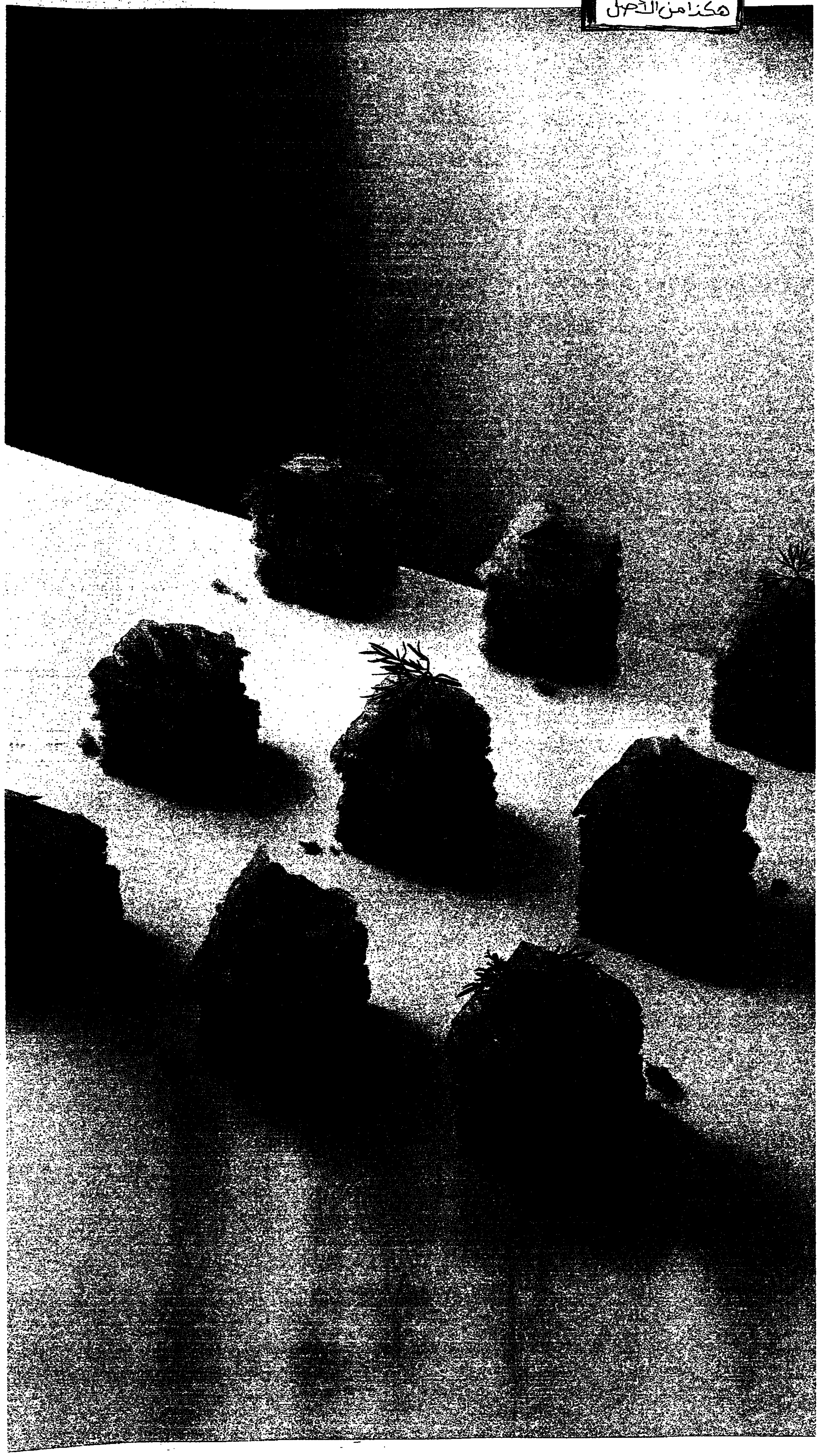

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UK NEWS

Migrating Britons cash in on housing

By Simon Holberton, Economics Staff

THE HOUSING boom in the south east of England will lead to net international and internal migration from the region of about 100,000 individuals in 1988, according to two Oxford economists at the weekend.

Mr John Muellbauer and Mr Anthony Murphy, of Nuffield College, in a research paper on the effects of house prices in migration, claim that net internal migration from the south east will reach 70,000 this year, its highest level since the Blitz during the Second World War. About 30,000 individuals will emigrate this year.

"These new migration patterns are the result of rapid house price inflation, particularly in the south east," they write. "This has more than offset the attraction of rapid economic growth and a buoyant labour market. People are cashing in their gains and moving to cheaper parts of the country or overseas."

There are unfavourable balance of payments consequences for the capital account from people selling houses and moving abroad. The authors challenge the Central Statistical Office's estimates of private transfers by UK migrants.

They suggest that instead of an average of £8,100 taken out of the UK by each migrant in 1987 the true figure is closer to £35,000. This year, they estimate, migrants on average will withdraw £42,000 from the UK which, in aggregate, comes to around £5bn, or about 1 per cent of Gross Domestic Product.

High interest rates and a strong exchange rate, the Government's chosen weapons for fighting the inflationary and balance of payments consequences of the boom in house prices, may curtail growth in the manufacturing industry. Since this is mostly located outside the south east, some regional benefits may be lost.

Increased net emigration implies a "brain and skills drain" which the UK can ill afford, they say.

The authors say one positive effect of the rise in house prices is that it may lead to less unequal regional development as jobs, as well as households, relocate outside the south east.

● *UK House Prices and Migration: Economic and Investment Implications. John Muellbauer and Anthony Murphy. published by Shearson Lehman Hutton, 1 Broadgate, London EC2M 7HA.*

Chairman of Next sacked following weeks of talks

By Maggie Urry

THE FIRST serious discussions among directors of Next which led to the late night sacking of Mr George Davies, chairman and chief executive of the UK retail group, and his wife Mrs Liz Davies, product director, last Thursday took place two months ago, it emerged yesterday.

When directors met last Thursday morning in the couple's absence, it had not been decided that the solution to disagreements about management style would be the expulsion of the couple, according to remaining board members.

Mr Davies and his wife have refused to comment since the announcement of their dismissal was made on Friday morning.

The couple issued a statement through their solicitor, Mr D.J. Freeman, saying they told the 11 pm board meeting that "in their view there was no justification for their dismissal." Legal action against Next for wrongful dismissal has already been started.

Mr Davies' dismissal was "because of fundamental disagreement concerning management style" according to the brief statement the Next group made to the Stock Exchange.

There has been no attempt to explain why Mrs Davies, who some regard as having been more important to the business than Mr Davies, was also sacked, beyond the fact that she was his wife.

Mr David Jones, formerly Mr Davies's deputy who took over as chief executive, said yesterday he first became concerned about Mr Davies's management style some months ago. He talked to Mr Davies about it.

His feeling was that Mr Davies's unstructured management style, which had served the company well when it was smaller, was no longer suitable in a business of the size Next had become.

Only after Mr Davies had been tackled directly, say his opponents, were the non-executive directors, who have played a vital role in the boardroom drama, approached.

Late Thursday morning the directors met to discuss possible options. By tea-time, apparently, the George-must-go decision had been taken. Mr Davies was asked to come to a meeting of the board, which was to take place at the offices of Next's legal advisers Slaughter & May.

At 11 pm or so, a board meeting was held at which the resolutions were put.

Mr Davies says he is not able to present his version of events on legal advice, although his supporters suggest he is the victim of a power game.

TI adjusts accounting to ease debt-raising

By Richard Waters and Clay Harris

TI GROUP, the specialist engineering company, is set to add fuel to the debate over brand accounting by adopting a new policy which solves an increasingly common balance sheet problem without forcing it to value its intangible assets.

The move will make TI the first UK industrial company to tackle the issue, which so far has exercised the creativity only of companies in service industries. It also signals TI's readiness to make additional large acquisitions and to take on significantly higher levels of debt to finance them.

TI's method will be to show goodwill as a negative reserve in its balance sheet. Such reserves are known colloquially as dangling debits.

Mr Michael Garner, finance director, said that the policy would remove an artificial restriction which had led the company in the past to issue equity rather than increasing borrowing.

Decisions by other companies to value brands and other intangible assets has divided the UK accountancy profession and led to fears that financial statements will become more difficult to compare.

The dangling debit method is already used by acquisitive service sector companies with balance sheet problems.

Training plan falls 25% short of target

EMPLOYMENT Training, the Government's £1.5bn training programme for the adult unemployed, is operating at least 25 per cent below target, according to confidential Department of Employment reports, writes Charles Leadbeater.

Senior officials of the Department's Training Agency, which is responsible for the programme, report serious difficulties in attracting unemployed trainees and enough employers to provide work experience placements.

The scheme's disappointing start could be a serious embarrassment for the Government, which has insisted the programme was proceeding well.

Training Agency figures show that by mid-November about 171,000 people were participating in the programme. About 86,000 had joined since its launch in September and a further 85,000 had transferred from the old Community Programme which is gradually being phased out.

Senior Training Agency officials say this is at least a quarter below the projected participation rate for the scheme at this stage.

UK NEWS

Row looms over meeting cost of future pit strikes

Max Wilkinson, Resources Editor

THE Government faces a clash with the electricity industry about meeting the cost of fighting a miners' strike after electricity privatisation.

The £2bn cost of defeating the miners under the leadership of Mr Arthur Scargill in 1984-85 fell mainly on the Treasury. That also happened after the strikes of 1972 and 1974 which resulted in the fall of the Government of Mr Edward Heath.

It appears that the Electricity Bill, which has its second reading in the Commons today, would require almost all such costs to be borne by electricity consumers – or by shareholders.

If the full cost of the last miners' strike had been passed to consumers, the resulting "Scargill levy" would have been equal to about 20 per cent of electricity bills. Not all the costs would have fallen on a privatised electricity industry, but the bill would have been very high.

One of the industry's main anxieties is that future regulators would refuse to allow the cost of strikes or disruptions to be passed to consumers, with potentially serious effects for the private electricity companies' shareholders.

The 139-page bill shows that the Government intends to take very wide powers in an emergency. The definition of "emergency" could include a strike.

The Government would be able to direct private electricity companies to run their most expensive gas turbine plant for prolonged periods, instead of just at winter peaks in demand.

It would also be empowered to direct companies to build up coal stocks to higher levels than they would otherwise think necessary, or to burn coal from stockpiles which they would not normally use.

In the year-long struggle with the miners the Government narrowly avoided black-outs by ordering power stations to burn as much oil as possible, even though it was then very expensive. Some plants, particularly the gas turbines, were worked so hard that their life is said to have been much shortened. Expensive replacements will therefore be needed earlier than expected.

The industry is trying to persuade the Government that licences needed by private electricity companies should recognise the financial consequences of such an emergency. The Government has remained adamant, however, that the costs must be borne by the industry, even though it has been told that would make shares in the new companies less attractive to the City.

One of the industry's main anxieties is whether its ability to withstand industrial action from outside would be hampered by arguments with the regulator about which costs could be passed to consumers.

Labour focuses on 'nuclear tax'

By Philip Stephens

THE LABOUR PARTY is to make the proposed "nuclear tax" on electricity consumers the focus of its attack when the Government's bill to privatise the industry is debated in the House of Commons today and tomorrow.

Mr Tony Blair, Labour's energy spokesman, yesterday accused the Government of creating "muddle and confusion" over the extent to which consumers would have to foot the bill for construction of four additional nuclear power stations over the next two years.

Initially, Mr Cecil Parkinson had suggested that the construction costs for the four pressurised water reactors (PWRs) would be passed on directly through a nuclear tax. Now, however, there were reports that National Power would have to raise the money itself on financial markets.

Mr Blair demanded that the Government clarify the coverage of the proposed tax before the bill was considered by parliament. It should also specify in detail how other costs – such as disposing of nuclear waste or decommissioning stations – would be allocated.

● The Consumers' Association last night attacked several aspects of the Government's electricity privatisation bill, writes Maurice Samuelson.

It criticised the built-in protection for the nuclear industry, which would be paid for by consumers, claiming that poor consumers would be hit hardest by higher power prices.

Mr John Winward, an energy analyst, said shareholders rather than consumers in privatised industry should pay for bad investments.

Nuclear power stations offered such poor financial return that it was doubted whether serious private investors could build them.

MPs back Kinnock in opposing SLD pact

By Our Political Editor

MR NEIL KINNOCK, the Labour leader, has the support of about three-quarters of his party's MPs in refusing to consider an electoral pact with the Social and Liberal Democrats.

According to an opinion poll published in yesterday's Sunday Times, only 21 per cent of a representative sample of Labour MPs backed such a pact. Some 76 per cent were against and 3 per cent were non-committal.

The result will provide some comfort for Mr Kinnock, who was disappointed last week by the call of Mr John Evans for a limited pre-election deal with the centre party.

In parallel, yesterday's poll shows growing support among Labour MPs for consideration of a switch in policy by the party towards support for some form of proportional representation.

West 'must update arms in spite of Soviet cuts'

By Philip Stephens, Political Editor

THE FOREIGN Secretary yesterday reaffirmed Britain's view that the West should proceed with the modernisation of tactical nuclear weapons in spite of the Soviet Union's planned cuts in conventional forces.

Sir Geoffrey Howe said on BBC television's On the Record that battlefield nuclear weapons would remain an essential part of the West's strategy of flexible response to any Soviet threat. Those weapons would have to be kept up to date if that strategy was to remain effective.

He sidestepped the issue of whether a firm decision had to be made next year on a replacement for the Lance short-range nuclear missile and acknowledged a "debate" within the alliance on whether it might be postponed. He declined to be drawn on whether opposition in West Germany to the modernisation might become insuperable in the wake of the Soviet cuts.

On the same programme, Mr Michael Heseltine, former Defence Secretary, also cautioned against the West lowering its guard.

Sir Geoffrey echoed the generally warm response in Nato countries to the announcement last week by Mr Mikhail Gorbachev, the Soviet leader, of unilateral cuts in Warsaw Pact forces. He said Mr Gorbachev's speech marked the beginning of a vital change on the Soviet side from an offensive to a defensive posture in Europe.

If the promised improvements in human rights were translated into action Britain might drop the veto on the next human rights conference being held in Moscow.

Sir Geoffrey said the Soviet leader himself, however, had acknowledged that his speech to the United Nations last week marked only the start of the process of arms reductions. Mr Gorbachev planned to "move warily as well as with vision and the West had to remain concerned about the overwhelming superiority in conventional and chemical weapons which Moscow would retain."

A hard sell in Hampshire Central

John Mason reports on the European by-election campaign

IF FURTHER evidence were needed of lukewarm public feeling for Europe, this week's European by-election campaign in Hampshire provides it.

Elections to the European Parliament have never set the electorate alight. On Thursday Conservative efforts to retain the Hampshire Central seat must contend with the rival attractions of the Christmas season.

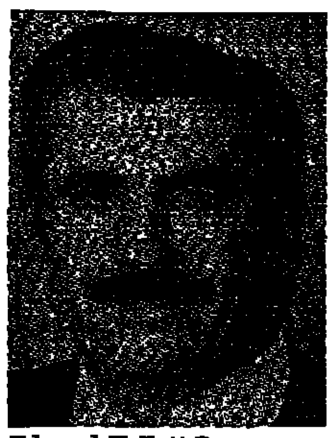
Mr Edward Kellett-Bowman, the Tory candidate, starts a clear favourite, defending a majority of almost 45,000 – or 27.6 per cent – inherited from Mr Basil de Ferranti, whose death precipitated the contest.

But with turnout expected to fall from the 31 per cent of the last European election to well below 20 per cent, and the Government suffering an early bout of mid-term blues, a victory is likely to be by a modest margin.

Selling Europe has proved hard work for all five candidates. The prospering business community of Southampton and the M3 corridor is largely aware of the approaching single European market and many firms are well integrated into trade with Europe.

But elsewhere in the constituency the Channel tunnel arouses fears of the arrival of rabies or of overnight invasion by foreign armies.

The Conservatives have mounted a big campaign to hold on to the seat, calling in Cabinet ministers, including Mr Cecil Parkinson and Mr John MacGregor, to speak at public meetings. Their efforts have resulted so far in only small attendances and few column inches in the local press.



Edward Kellett-Bowman: clear favourite

Mr Kellett-Bowman is directing a campaign in which he insists, for example, that the single market presents rich opportunities for "Enterprise Britain," but federalism is out.

With Conservatives at the helm, Britain will be a good European but undue centralised decision-making will be resisted, he says.

He plays down the possibility of losing votes through disillusionment with government policies. Interest rate rises have not yet led to a flood of complaints while last week's "egg row" and the protests of Hampshire poultry farmers will have subsided by polling day, he says.

At the last European election, the votes for Labour and the Alliance were split almost equally. Labour has a stronghold in Southampton, where it runs the city council, but only pockets of support outside. In the rural areas – where the mix is one of agriculture and London commuter villages – the Social and Liberal Democrats and Social Democratic Party form the opposition.

However, the confidence of the SLD, with a strong base in local councils, has grown. Their candidate, Mr David Chidgey, claims an SLD victory is now possible thanks to disillusioned traditional Tory voters. However he must trust to the volatility of a low turnout producing an unexpected result.

He is campaigning on the SLD being the only truly enthusiastic supporter of the European Community. Britain should join the European Monetary System and collaboration on high tech industrial projects must increase for Europe to compete with Japan and the US.

The businessman's Europe must also be balanced with harmonisation of benefits such as pensions, more industrial democracy and more effective environmental legislation.

Unsurprisingly, the Labour candidate, Mr John Arnold, predicts the disarray of the centre parties makes him the major challenger.

The moderate Labour leadership of Southampton Council has good relations with local business and has set up its own services to support businesses in the run up to 1992, Mr Arnold says.

He is trying to turn the election into a referendum on government policies by campaigning on the poll tax and local government cuts. However, the difficulty of winning the rural vote means second place is the most he can probably hope for.

The SDP has a candidate with a familiar name, if not a face, in Lord Martin Attlee, son of the late Labour Prime Minister – a link featured in his election literature.

Lord Attlee maintains support for what he agrees many voters call the "David Owen party" is bearing up. The lack of representation on local councils is misleading because many councillors elected for the SDP joined the Democrats after the merger, he argues.

The SDP campaign promotes full economic integration, warning London will be replaced as Europe's banking centre unless Britain joins the EMS and participates fully in the creation of a central European Bank.

This is not always an easy message to spread on walkabouts, so he explains a common currency would mean British holidaymakers no longer paying charges for changing pounds into francs.

Green Party candidate Mrs Sally Penton is campaigning on the damaging effects of nitrate fertilisers encouraged by the Common Agricultural Policy and the loss of Hampshire's hedgerows. Her target is to poll the 5% of the vote necessary to save her deposit.

Candidates: Edward Kellett-Bowman (C); John Arnold (Lab); David Chidgey (SLD); Lord Attlee (SDP); Sally Penton (Green).

Forgemasters attacks gas price

By Hugo Dixon

SHEFFIELD Forgemasters, the sole surviving UK manufacturer of large steel castings and forgings, is threatening to sue British Gas for overcharging due to abuse of its monopoly.

The move is the lastest in a long-running battle between the Sheffield company, which consumes large amounts of gas, and British Gas.

Forgemasters was instrumental in persuading the Monopolies and Mergers Commission to investigate British Gas.

The result of this investigation, announced in October, was a condemnation of British Gas for charging industrial customers high and discriminatory prices.

Forgemasters also fought an unsuccessful campaign last year to install Sir Ian MacGregor, former chairman of British Coal, as a director of British Gas defending industrial customer interests.

Mr Phillip Wright, managing director of Sheffield Forgemasters, said yesterday that a writ against British Gas had been prepared and would most probably be served this week unless an amicable agreement was reached in the coming days.

British Gas responded by saying it believed the writ had no "legal foundation whatsoever and it seems to us to be merely a publicity gimmick."

Forgemasters is also claiming damages from British Gas for overcharging since the beginning of 1986. The sum involved is believed to be about £5m.

Remand centre plans criticised

PRIVATE remand centres would be a distraction from the problem of reducing the number of prisoners awaiting trial, a probation officers' leader said yesterday.

Responding to a green paper on the subject, Mr Graham Smith, chairman of the Association of Chief Officers of Probation, said: "Private remand centres would have very high costs. They would be totally contrary to existing policy as they would encourage growth in an area which the Government wants to reduce."

French finance and new leadership could ease a rough ride

Norma Cohen looks at Alexanders, Laing and Cruickshank in a series on how Big Bang has affected securities houses

ALEXANDERS, Laing and Cruickshank Holdings has never had a smooth ride since it was formed out of the desire of Mr John Barkshire, then chairman of Mercantile House, the money-broking group, to build a US-style diversified financial services company.

That was in 1985, when people in the City used to speak of financial supermarkets where investors could "one-stop shop" for all their financial needs.

ALCH was formed by combining Laing and Cruickshank, the stockbroker, with Alexanders, a discount house. Oppenheimer, a New York investment firm which Mercantile House already owned, added an extra dimension to the group. At the time of the Big Bang reforms of the stock market in October 1986, ALCH was also designated one of 27 market makers in UK government bonds.

Only eight months after Big Bang, Mercantile House was acquired by British and Commonwealth, and broken up. ALCH was sold to Credit Lyonnais, the French bank, which was itself on the brink of privatisation at the time – though plans have now been shelved. A year after Big Bang came the stock market crash, when many firms learnt that offering a broad range of products also meant a broad range of ways to lose money.

Meanwhile, ALCH's core business, stockbroking, is showing signs of undergoing a shakeout. Last week Morgan Grenfell pulled out of market making in equities and gilts, firing 450 staff. This suggested a large market share – Morgan Grenfell's was larger than ALCH's – did not necessarily ensure adequate profitability.

Ian Hay Davison: conducting review

ALCH's ability to hang on may have more to do with its *ownership than its market* share or even its current level of profitability. Morgan Grenfell had to answer to its shareholders. Credit Lyonnais, by contrast, is a government-owned bank, and ALCH is easily subsumed into its balance sheet.

Under its new owner ALCH is struggling to find its footing. Credit Lyonnais has brought in as chairman Mr Ian Hay Davison, whose former tasks include revising the practices in the Lloyd's insurance market and reviewing the Hong Kong stock market following the debacle during the stock market crash.

Mr Hay Davison has been asked to conduct a review of ALCH's operations and make *recommendations on long-term* strategy.

His appointment is said to have provided a lift to a firm demoralised by a series of mishaps including its relationship with stockbroker Mr Anthony Parnes, involved in the Guinness affair, and an out-of-court payment to settle charges of stock price manipulation in Australia.

"He's doing everything right. He's sitting on the trading desk, he's learning the business," said one former partner.

Credit Lyonnais says it is committed to all the activities of ALCH. A top executive at the bank's Paris headquarters said Credit Lyonnais wants to be a worldwide investment bank and, to that end, owning a stockbroker in the London market is essential.

In spite of the intense competition in the gilt-edged market, Credit Lyonnais says it will keep ALCH as a market maker because it intends to be a purveyor of government bonds in all currencies. The bank is also a market maker in West German, Dutch and French government bonds.

Credit Lyonnais argues that the discount house operation is also part of its desire to be a universal bank. Although the sector is suffering now, the logic of combining a discount house with a gilt-edged market maker is something that has escaped neither the other UK merchant banks nor the Bank of England which has just published guidelines for firms wishing to go that route.

But Credit Lyonnais' patience can only be finite. After all, it paid a hefty £75m for ALCH just months before last year's stock market crash. Up to the end of September it had not been profitable this year.

MR Mark Powell, chief executive of ALCH, says Credit Lyonnais has added additional capital to the firm in 1988, although he declines to say how much.

Some former executives say that injections of new capital alone will not ensure the firm's survival. The main problem, they say, is that in the scramble to prepare for the Big Bang and global capital markets, the firm was never entirely sure about what it wanted to be.

Mr Terry Smith, a banking analyst who recently left Barclays de Zoete Wedd, said: "Before Big Bang, everyone agreed you had to be either a full service firm really big in everything or a niche player." Unhappily, ALCH managed to do neither.

One former executive said: "There was a lemming-like thrust into this industry and we all thought we were Salomon Brothers in the making."

Like many other UK stockbrokers, ALCH embarked on an ambitious expansion programme into several sectors that it simply had neither the capital nor the expertise to participate in. For instance, the firm bought Castleforth Fund Managers, the venture capital group and planned a nationwide chain of estate agencies.

ALCH also appeared confused about how to develop its core stockbroking business. Although it had a strong research component, it was undecided about how to use it. While it decided to pursue a course as an agency broker, it concentrated its market making activities in third-line stocks – the category of share that suffered the greatest losses after Black Monday in 1987.

'There was a lemming-like thrust and we all thought we were Salomon Brothers in the making'

Now, Mr Powell says, ALCH has made up its mind to be a market maker, specialising in alpha stocks of bank and building and construction firms – sectors where the firm has excelled in research. Since Big Bang, ALCH has become a market maker in nearly 300 stocks, mostly the liquid alpha stocks, up from about 150 before, Mr Powell said.

One of the firm's most successful components, the private client business, was undone by the inability of its existing computer systems to settle all the trades the unit was able to book.

Mr Powell concedes that the firm had settlement problems, but says it was far from buried by the backlog. Since the firm began to clear its backlog of unsettled trades in the autumn of 1987, steps have been taken to cure its systems problems.

The firm has hired additional staff, improved its systems capacity and shifted the type of business it handles. For instance, it no longer acts for some clearing banks.

But improving the technical side of the business is clearly only one ingredient in restoring its fortunes. It has been hard hit by the loss of a successful team in the investment trust sector led by Mr Garth Milne who formed a joint venture with S. G. Warburg. Very recently, it lost its bank stocks analyst, Mr John Tyce.

But it remains uncertain whether the combination of Mr Hay Davison's reputation and Credit Lyonnais's capital can whip the firm back into shape.

Previous articles in this series: Shearson, Tuesday November 8; Lloyds Bank, Monday November 14; BZW, Monday November 21; Quilter Goodison, Monday November 28

Top Bank official set to leave

By Nick Bunker

MR ANTHONY Loehnis, one of the Bank of England's most senior officials, is expected to leave the Bank next year for a career elsewhere in the City of London.

The Bank declined to comment yesterday on his position but close observers say he may go to S. G. Warburg, the investment banking group.

Mr Loehnis, 52, an executive director of the Bank since 1981, headed its overseas division.

Speculation about his likely successor centres on Mr Andrew Crockett, who has a key post with the International Monetary Fund with responsibility for its twice yearly World Economic Outlook.

Mr Loehnis started his working life with the Diplomatic Service, before joining J. Henry Schroder Wagg, the merchant bank, in 1967. He was seconded to the Bank of England in 1977-79, before joining its permanent staff.

MIM in private client move

By Our Financial Staff

THE MIM Britannia investment management group has established a private client stockbroking company, City Merchants Investment Management.

It is headed by Mr Bryan Baughan, formerly in charge of the private client side of stockbrokers Hoare Govett.

The new company is emphasising its City location because provincial firms, which have lower costs, have been making inroads into the market.

Ban on food irradiation 'should remain in place'

By Christopher Parkes, Consumer Industries Editor

BRITAIN'S ban on the use of irradiation to preserve food should remain in place until a test has been perfected which can detect whether food has been treated, the Consumers' Association said last night.

It also called for more information on the effects of X-ray or gamma ray treatment. "We do not, for instance, yet know what effect irradiation would have on pesticide residues in vegetables," Ms Anna Bradley, the association's food specialist, said.

She was also concerned about the possible dietary impact. It was known that irradiation leached vitamins out of food. If potatoes were irradiated, for example, the loss of vitamin C might have a significant effect because of the importance of potatoes in some people's diets.

An advisory committee claimed in 1986 that irradiation was a useful and harmless way to preserve food, but the process has yet to be approved.

Last month Lord Cockfield, a British member of the European Commission in Brussels, proposed that Community restrictions be lifted by 1992.

Hill Samuel recruits two executives

HILL SAMUEL, the merchant bank, is strengthening its corporate finance side with the recruitment of two executives, Mr Tom Wyatt, previously with Kleinwort Benson Securities, and Mr Johnny Reed, from rival merchant banker J. Henry Schroder Wagg.

Mr Bay Green, head of Hill Samuel's corporate finance division, said Mr Wyatt, 39, whose background is in securities analysis of the retail sector, would form a unit dealing with the retail industry.

Mr Reed, 36, will become an associate director in the general corporate finance team.

Halifax under pressure to introduce cheque accounts

By David Barchard

MARKET PRESSURES are growing on Halifax, the largest UK building society, to follow Abbey National and Nationwide Anglia by offering customers a cheque-book current account.

Mr Jim Murgatroyd, assistant general manager, yesterday confirmed that the Halifax was carrying out research on cheque-book current account services, but said no decision had been taken on whether to go ahead.

Halifax's market strategy has until now been based on the assumption that electronic payment through plastic cards will replace paper-based money transmission for most purposes in the relatively near future. However, progress in setting up electronic fund transfer systems and the introduction of debit cards, enabling payments to be made from a current account without cheques, has been slower than expected.

Although Halifax has a limited cheque-book service dating back to the 1920s when it acquired a bank, it has until now been deterred by the likely costs of setting up a widely available cheque-book service. Instead, it has offered customers sophisticated cash machine services enabling them to make most payments by using a plastic card.

The Halifax has nearly 3.5m customers using its cashcard current account system, but in the building society industry it is believed that it has lost some customers to Nationwide Anglia and Abbey National since they began operating cheque-book accounts.

"Lloyds Bank's decision to pay interest on current accounts has given a new twist to the market," Mr Murgatroyd said yesterday. "It means a major shift in the market is taking place and we have to keep our options open and be able to move into the cheque market ourselves if we so chose."

● Woolwich, the fourth largest UK building society, made pre-tax profits of £111.6m in the financial year ending in September 1988, compared with £93.1m in 1987. The society's reserves grew from £391m to £616m, while total assets rose from £9.26bn in 1987 to £13.4bn.

During the year, Woolwich absorbed the Gateway building society. The increase in assets included £1.9bn in funds transferred from Gateway. The society's mortgage lending business grew rapidly, with the total amount of loans advanced reaching £3.4bn compared with £2bn in 1987.

Correction

British Aerospace

OUR report on December 5 that British Aerospace gave £50,000 to the Conservative Party was incorrect. It arose from an error in an article published by Labour Research Department, which the independent trade union organisation now says should have referred to British Airways. BAe points out that its policy is not to make any contributions for political purposes.

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UK NEWS

London Life to hold second merger meeting

By Nick Bunker

OFFICIALS of London Life, the mutual life insurer, spent yesterday closeted with the company's solicitors, Herbert Smith, preparing documentation for a second extraordinary general meeting to win policyholders' approval for its controversial proposed merger with Australian Mutual Provident.

A decision by the company on Friday to hold a second EGM followed a Court of Appeal ruling that the first EGM, on October 19, was invalid. The October meeting approved the plan but was marred by scenes of uproar when the venue proved too small to hold the 800 policyholders who turned up.

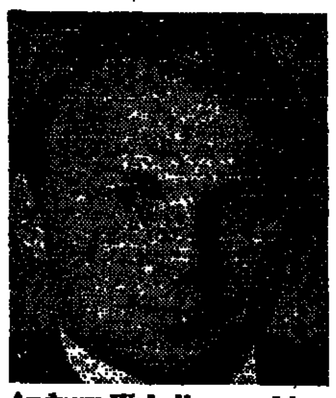
Counsel for London Life will appear in the Companies Court today to start a petition for approval for the merger, as required under the 1982 Insurance Companies Act.

However Mr Andrew Wakeling, deputy managing director, said counsel would ask the judge to adjourn hearing of the petition until after the second EGM, to be held on January 27.

The company will still face protests in court from dissident policyholders insisting it should adopt Stock Exchange and Takeover Panel standards for disclosure of financial information relating to the merger.

Mr Stephen Walkley, one of the dissidents, said he knew of at least six policyholders who would be in court to ask the judge to instruct London Life to disclose details of its current trading in particular.

If necessary, the dissidents plan to ask the judge to throw out the petition rather than adjourn it. One view among the dissidents is that London Life should close its life fund to new business, to protect existing policyholders, but sell its sales force and branch network to AMP, giving AMP the foothold it wants in UK life assurance.



Andrew Wakeling: seeking opinions of members

Friday's decision to ask for an adjournment today represents a U-turn from the company's initial insistence after the Court of Appeal ruling that it could safely have gone ahead immediately with its petition to the Companies Court.

Mr Wakeling said yesterday: "We have decided that the simplest thing is to go to back to the members."

London Life's board is keen to avoid criticisms that it was using legal technicalities to force the merger through, or that the first meeting had been a waste of time.

Kleinwort transfers mortgage business

By David Barchard

KLEINWORT BENSON, the London merchant bank, is to transfer administration of its UK mortgage book to Skipton Building Society. This is the first time that a bank has transferred its mortgage book to a building society for administration.

The deal reflects a growing trend by building societies away from traditional mainstream mortgage business and into specialist housing finance operations.

Earlier this year Skipton set up a subsidiary, Home Loan Management, to administer mortgages issued by other lenders.

Skipton's aim is to offer new entrants to the mortgage market advanced mortgage processing technology at a lower cost than would be available for a bank or mortgage company processing mortgages on its own.

Kleinwort Benson's mortgage book is about £900m and expected to pass the £1bn point early in the New Year. Kleinwort Benson already has a joint venture which funds and administers mortgages for several UK financial institutions.

Funds must learn a song for Europe

Eric Short on the single-market challenge facing unit trust groups

THE SINGLE European market, as far as unit trusts are concerned, will come into effect not in 1992 but as early as next October.

This is the date when the EC directive on undertakings for collective investments in transferable securities, known as the UCITS directive, comes into operation. UK groups will be able to market their trusts in Europe, while European-based funds will be available in the UK.

There is a widespread feeling that UK management groups will be well placed to profit from this single market. However, unit trust managers have been warned that the product range of UK groups is not broad enough to compete in the new environment.

Mr Tom Veitch, deputy chairman of Wardley Investment Services International, the unit trust arm of the Hongkong and Shanghai Banking Group, told a recent annual Unit Trust Association conference in London that management groups must not be complacent about the European market.

Equity fund management is still in an early stage of development in a number of European countries and it has been felt that UK groups will have the edge over their European counterparts in product design, marketing and depth of international fund management capacity.

However, Mr Veitch said that this was no guarantee for success, at least not without some radical changes.

European investors are still very wary of risks and bond funds currently account for about two-thirds of European collective investments while such funds make up a relatively small part of UK unit trust activities.

UK management groups are not well placed to offer bond funds, not only because of this relative lack of experience, but because of an adverse tax system.

UK unit trusts are subject to corporation tax, borne by the underlying funds. Although this is of little consequence for UK equity funds and not an important feature for overseas equity funds, it has a severe impact on bond funds.

In contrast, in many European countries the taxation of collective investment vehicles works on the "flow through" principle under which the fund itself is not taxed, but the liabilities are passed on to the individual investor.

These two different systems will pose a number of serious complications for the European investor holding UK bond funds, thereby reducing their attractiveness.

Mr Veitch pointed out an even more serious drawback to UK unit trust management groups considering selling in Europe. The Europeans are unfamiliar with the concept of a trust and do not have trust law in the Anglo-Saxon sense. He said this feature could cause various marketing problems.

The open-ended investment company, under which the number of issued shares is not fixed but varies according to investors' demand and whose price is based on the underlying value of the assets, is now the dominant form of collective investment vehicle in the world.

Many offshore open-ended investment funds are quoted on the London Stock Exchange. Their advantages are fewer tax complications, as is the case with unit trusts, and more cost effectiveness, since they do not require both a manager and a trustee.

Mr Veitch told delegates that the industry must campaign for such vehicles to be acceptable in the UK. He expressed disappointment that the recent Queen's Speech had failed to include open-ended investment companies as an acceptable savings method in the new Companies Bill.

Until UK management groups have the ability to develop such products in this country, they will be forced to develop their European ambitions outside the UK.

Currency is also a problem. Until a common Community currency is developed, almost all investment products sold in Europe will be denominated in the home currency, Mr Veitch said. He told the conference that a sterling-denominated unit trust paying corporation tax was simply not an attractive vehicle for European investors and would not compete effectively with Luxembourg, or even French or Dutch products.

Mr Veitch also warned that in the European marketplace distribution was paramount and highly efficient, with the banks dominant in this field.

Good investment performance would not create many marketing opportunities until the European investor was better educated on the subject.

There were restrictions on advertising, with most European countries only allowing corporate advertisements for the management group and not specific advertising of investment products.

Mr Veitch also said that most Europeans believed that financial transactions should only occur in a place of business — a custom that loads the dice in favour of banks and against the UK style of intermediary selling.

Building activity continues to slow

By Joel Kibazo

CONSTRUCTION activity continued to slow in the third quarter of this year, according to Department of Environment figures.

Provisional figures show total output, including repair and maintenance, unchanged compared with the second quarter, yet 6 per cent higher than in the same 1987 period.

Private house building in the third quarter of 1988 was 12 per cent lower than in the previous quarter, but 3 per cent higher against the same 1987 period.

Construction in the public housing sector in the third quarter was 9 per cent lower than in the previous quarter and 13 per cent lower than the third quarter of 1987.

New construction in the private industrial sector was 1 per cent lower than in the second quarter but 8 per cent higher than in the 1987 quarter.

However, new private commercial building was 6 per cent higher than in the previous quarter and 16 per cent higher than in the third 1987 quarter, while non-housing public sector building saw an increase of 3 per cent on the second quarter and was 1 per cent higher than in the same 1987 period.

Jewellery sales forecast to rise

By Maggie Urry

JEWELLERY sales have remained more buoyant while many sectors of retailing are coming under pressure, according to a report by Verdict Research, a retail research company.

It believes that jewellery sales will have grown by 16 per cent in 1988 to total £2.2bn and forecasts that, in spite of the Government's attempts to restrain consumer spending, sales will rise by a double figure percentage again next year.

The market has grown rapidly in the past few years after a difficult period in the early 1980s.

Verdict attributes much of the increase to the change in the marketing stance adopted by the multiples, notably Ratners. Jewellery has become an affordable fashion item rather than an investment, and the frequency of visits to jewellery shops has risen.

Verdict estimates that, following the recent purchase of Zales, Ratners has 24.3 per cent of the market, which means the deal may have only just escaped a reference to the Monopolies Commission.

However, apart from Ratners, no other company has more than 10 per cent of the market. Argos, owned by BAT Industries, is the second largest with 5.8 per cent, Verdict believes.

Independents control two-thirds of jewellery sales made through specialist retailers, a higher proportion than in any other area of retailing except newsagents. However, sales by multiples are growing far more quickly than independents and a further concentration seems inevitable.

Verdict also believes the jewellers' dependence on Christmas trade is declining, although more than 21 per cent of jewellery sales are made in December compared with 11.6 per cent for retailers as a whole.

Verdict on Jewellers. Verdict Research, 112 High Holborn, London WC1V 6JS. £450.

APPOINTMENTS

New chairman at Blue Circle

■ Mr David Poole, group managing director of BLUE CIRCLE INDUSTRIES, will assume the additional role of chairman following the retirement of Sir John Milne at the annual meeting in June. Mr Poole was appointed managing director of Blue Circle Industries in June last year, having been joint managing director since July 1986.

■ POLLY PECK INTERNATIONAL has appointed Mr John Clayton as head of legal affairs. He was previously with Fisons and GKN.

■ Mr Ron Hadnam, formerly group purchasing director of Perkins Engines Co, has joined TRIPLEX LLOYD as an associate director.

■ Mr Charles Perry, formerly a director of Kleinwort Grieveson Investment Management, has been appointed a director of WILLIAMS DE BROE's investment management division.

■ Mr Gerard Howell has been made managing director of HAWKER SIDDELEY's small diesel manufacturer, Lister-Petter. He was previously managing director of another Hawker Siddeley subsidiary, Westinghouse Signals.

■ Mr John Harris has joined ELGAR PMT MACHINE TOOLS, a subsidiary of Elliott Industries Marketing (EIM). He comes from Matrix Churchill, where he was sales director.

■ Mr David Atkinson has been appointed managing director of SPEEDO (EUROPE). He succeeds Mr Ray Brooks who has retired. Mr Atkinson was chief executive of the National Dairy Council.

■ Mr A.J. Davis, formerly group general manager of Singapore Land, has become a director of P & O PACIFIC INVESTMENT TRUST.

■ Mr Osman Ahmed Suleiman has been appointed a director of ALBARAKA INTERNATIONAL BANK replacing Mr Baghat Khalil who has resigned.

■ MICROGEN HOLDINGS has made Mr Brian Shears its finance director. He continues as company secretary. Mr Philip Tattersall is retiring from the board, but will continue as group consultant.

■ Mr Rob Laughton, a former marketing manager at DATACORP, has been promoted to marketing director.

■ LEVITT GROUP HOLDINGS has made Mr Stuart Nesbitt a director. He remains managing director of The Levitt Group (Financial Services). Mr Stephen Hopkins has also become a director. He will continue as managing director of The Mortgage Collection and a director of The Levitt Group.

■ Mr David Young has been appointed director and general manager of the Vitavox division of SECOMAK, the Halma Group subsidiary.

■ Mr P.J. Golding has been made a director of BROWN SHIPLEY INSURANCE BROKERS.

■ The TALBEX GROUP has appointed Mr M.L.R. Swan as deputy managing director of its Osmond Aerosols subsidiary. He continues to be responsible for marketing, sales and customer services.

■ Mr R. Lewis has joined BRITISH AEROSPACE SIMULATION as marketing director. He was managing director of Educational Computer Corporation (UK).

■ CARADON PLASTICS, a division of Caradon, has appointed Mr Tony Fuller, formerly managing director of Caradon L and P, as business development director. Succeeding Mr Fuller as managing director at Caradon L and P will be Mr Les Manton, who joins from Clearplas, a Suter Group company.

■ Mr Stephen Wheatcroft has joined AYNSLEY CHINA as financial controller. He comes from the National Nuclear Corporation, where he was senior project accountant.

■ CHARTWELL LAND has appointed Mr David Gregory as a director of Chartwell Land Development and Mr Tim Ayre as a director of Chartwell Land Investments.

■ Mr Ron Phipps has become managing director of JCR INKS AND COATINGS. He was commercial director at Nabisco.

■ Mr Robin Etheridge has been appointed group non-marine underwriter (strategic planning) of ENGLISH & AMERICAN GROUP.

■ The RUGBY GROUP is making the following group appointments on January 1. Mr Peter Carr becomes deputy chairman of John Carr; Mr Richard M. Fawcett, group managing director, and Mr Stephen W. Rowbotham, group manufacturing director.

■ RESPONSE GROUP, the former clothing division of the J. Crowther Group, has made a number of senior appointments. Mr David Suddens, formerly chief executive, Crowthers Clothing, nd managing director designate of the J. Crowther Group, becomes chairman and chief executive. He was previously chief executive of Courtaulds Fabrics.

Mr Andrew Johnson, formerly chief executive, Crowthers Ladieswear, becomes deputy chief executive. He was previously chief executive of Courtaulds Fabrics subsidiary Derby Nyla.

Mr Richard Lee, a director of several clothing companies in the north of England, has been appointed a non-executive director.

Mr Terry Monks, formerly finance director of the Giltspur division of Unigate and group treasurer of Lex Service, has been made group finance director.

Mr David Atkinson, a former chief executive of the National Dairy Council and managing director of Green Giant Foods, becomes chief executive of Speedo, a wholly-owned subsidiary of Reponse.

Mr Terry Forbes has been appointed chief executive of the WW Group, the company's product sourcing and importation subsidiary. He was previously managing director of WW subsidiary Embesons.

■ ABBEY NATIONAL BUILDING SOCIETY has appointed Mr Gareth Jones to the position of treasurer and assistant general manager. He will be joining the Society on January 3. He was finance director at First Mortgage Securities.

■ BRITISH RAILWAYS BOARD has made Mr Don

Lord Barnett to be chairman of Dominion International

■ Lord Barnett, the Labour peer who is deputy chairman of DOMINION INTERNATIONAL, is to become non-executive chairman of the financial and property services group, *writes Andrew Hill.*

The current chairman, Mr Max Lewinsohn, will be executive deputy chairman, concentrating on the future strategy and direction of the group, and the company intends to appoint a chief executive who will be responsible for day to day operations.

Mr Lewinsohn said Dominion, which last week announced a 37 per cent increase in interim pre-tax profits, had "come of age". The board had felt a distinguished statesman such as Lord Barnett could serve the group better in the chairman's role, he added.

Heath director, projects, to oversee the bulk of its £4bn investment programme over the next five years. He succeeds Dr Bernard Nield, who is retiring.

■ NORTH BRITISH MARITIME GROUP, a subsidiary of Howard Smith, has appointed Mr David Webb to take over as chief executive in the New Year when the the present chief executive, Dr Ken Moss, returns to Australia to become general manager corporate operations at Howard Smith. Mr Webb is Howard Smith's general manager, industrial.

■ PACOL has promoted Mr Lyle Aitken and Mr Kevin Jennings to joint managing directors. Mr Charlie Stapleton, Mr Cliff Sharpener and Mr Ken Walker are retiring.

■ Mr Roger Pincham has been appointed an associate director of GERRARD VIVIAN GRAY. His responsibilities will be handling a wide range of private clients accounts and developing CVG's private client management team. Since 1976 he has acted as consultant to P & D's private client department which has allowed him to pursue his political interests.

■ Mr Keith Stanger, presently in charge of LLOYDS BANK's strategic planning, has become general manager, corporate banking and treasury. He will be replaced by Mr Iain Cheyne, general manager, corporate communications division.

■ Mr Richard Urbach has joined SANWA INTERNATIONAL as a deputy managing director in charge of a new department specialising in derivative product trading. He joins from a similar position at UBS.

■ SAUTER AUTOMATION has promoted Mr Philip Swindells to general manager. He was appointed to the main board in April 1987 as sales/contracts director. He now assumes overall responsibility for the executive management of the company.

MANAGEMENT

Ashtead Plant Hire

A growth plan with a democratic foundation

Vanessa Houlder examines the credo of 'team effort in a classless company'

Ashtead Group does not conform to the traditional stereotype of a plant hire company.

In a business in which haphazard industrial relations are as familiar as excavators and dumper trucks, Ashtead lives by a distinctive credo: "team effort in a classless company".

The head office is known as a support office; the 29 depots are known as profit centres. Regardless of rank, the workforce (all 400 of whom are dubbed staff members) are given the same rights to pensions, holidays and life assurance.

Monthly salary cheques have replaced weekly cash-in-hand and a share of each depot's profits has replaced overtime payments. This formula has generated results. Since the policy's inauguration in 1984, Ashtead has increased its pre-tax profits fifty-fold to £3.15m for the year to April 30. In the same time, it has also changed from being a business that barely covered its costs into one that has achieved trading margins of over 24 per cent.

The formula has also impressed the depot managers. "It inspires people to show a lot more enthusiasm," says Jack Cumming, the 51-year-old manager of the Leatherhead site, in Surrey. "People do work harder as a result," agrees Andy Benham, a 30-year-old who heads the Aylesbury, Buckinghamshire, depot. "They do feel they have an influence on things."

The Ashtead philosophy was forged by Peter Lewis, chairman, and George Burnett, group managing director who, with backing from Gartmore Investment Management, bought Ashtead for a total of £458,000 in 1984. They run the business jointly from a shared office at the Leatherhead headquarters.

Their vision of how to run the business began to evolve when they were attempting to haul the plant hire businesses of their previous employer out of the recession of the early 1980s.

Having encountered similarly difficult trading conditions when they bought Ashtead, they believed that they needed a scheme that would motivate barely profitable depots but not penalise the most efficient operators. At the same time, they had to improve the attitude and performance of the employees in a way that would make Ashtead stand out from its competitors.

From the outset, the directors believed that they had to reverse the hierarchical pyramid. "At the bottom is the guy who actually supports the business," says Lewis. "The danger is he does not know what he is meant to be doing."

The solution, they reckoned, would be to make each depot a profit centre in its own right, plugging into services such as finance, training and marketing provided – at a charge – by the head office.

And, to ensure that incentives and an understanding of the businesses extended throughout the company, they instigated a profits scheme linked to the performance of the individual depot.

This scheme depends on a combination of two principles: improvement in profits and return on investment over and above a certain threshold level.

It is, believes Burnett, a far better measure of performance than merely reporting against profit targets or overall corporate profits. "Whereas the clever budgeter can give himself a comfortable ride by under budgeting, there is no subjective element in this scheme," he says.

The scheme is put into action at monthly meetings held at each depot outside work hours. At these, the figures for items such as repairs, carriage and debts, together with their effect on profits and the staff's profit share, are transferred by the manager from a computer printout onto a large board.

This can prompt debate among the 14-odd employees per depot: a manager may, for example, have to justify having bought some equipment or there might be some ideas on how to cut down certain costs.

At this stage, the depot manager allocates the money available under the scheme among the staff. He will hold back 20 per cent for himself, which normally will account for 22 per cent of his salary.

For the other staff, the profit share may add a further 10-20 per cent to their wages: so a fitter might get between £1,000 and £2,000 as a share of profits, on top of his £11,000 basic salary for the year.

The board prefers, although this is not mandatory, that this is distributed selectively. Allocations normally take into account sick leave and overtime – although, the managers say, the need for overtime has diminished significantly since the days when it was the sole source of extra cash for employees.

This scheme was installed within a couple of months of the management's original acquisition of Ashtead in 1984 and has been similarly implemented in the depots bought in six acquisitions since 1984. At the outset, the directors did encounter suspicions about the scheme, not least because the mechanics of it are difficult to understand first time round.

There were also some real practical problems thrown up by the shift from weekly pay packets to monthly salary cheques. To ease the transition, Ashtead helped employees open bank accounts and offered them interest free loans to tide them over through the first three months.

Unions had no role to play at this or any other stage. There is no union representation, chiefly because a business with 29 locations does not lend itself to unionisation, says Lewis. Moreover, employee involvement of this sort would be anathema to most unions, he maintains.

Ashtead's philosophy runs deeper than the profit sharing scheme. It also gives individual managers considerable autonomy on matters such as pricing and buying new equipment. "There is freedom to spend but there are consequences," explains Burnett. "We charge depreciation, we charge interest. So if equipment isn't used, it influences their own profit share next month."

In the same way, Ashtead has a central price list but managers have the freedom to discount it. "You cannot sit here in Leatherhead and say what the price in Kilmarnock should be," says Burnett.

But although the depots are given a free hand on these issues, the variations in the depots' performance on this and other indicators such as debtors and profitability are highlighted in monthly league tables, distributed to all the depots. "There are other ways of rewarding apart from money," says Burnett.

All of which proved a perfectly sound foundation for the company while it was sufficiently small for the directors to field queries and problems as they arose. But as Ashtead increased in size through acquisitions, Burnett and Lewis realised that they needed an additional structure that would help train and motivate new managers.

Tony Andrews

Peter Lewis (left) and George Burnett: all employees at each depot can raise questions about operating costs that can affect their share of profits

Accordingly, in the spring of last year, a system of quarterly meetings for groups of depot managers was devised. These were designed as opportunities for managers to swap ideas, discuss problems and even criticise the directors – who are always present at each session. At these regional meetings the depot managers elect one of their colleagues to act as chairman for a year.

There is a presentation from each depot manager (or divisional director as they are called) followed by a review of administrative procedures, most popular products, prices and marketing services. The chairman asks one of the directors to relate his biggest operational problem after which there is an opportunity to raise questions and criticisms.

"Our meetings get quite heated," observes Cumming. "It is a gloves-off thing." Controversial subjects range from the wisdom of spending £3,000 on advertising in yellow pages, to whether poaching – when one depot encroaches on another's patch – should be allowed. Ashtead's general policy is that poaching is fair game, given that some fault lies with the depot that let business slip away from it.

There is also likely to be criticism of the head office if, for example, there was late delivery of invoices. "They lean on us; we also lean on them," notes Cumming. "It goes back to running a very open company."

In discussing Ashtead's management style, the theme of openness is emphasised again and again. There is, for example, no clocking-in system. "It has no place to play in a business where there is a strong element of trust," says Lewis. "If you take the opposite view you build in a panoply of controls and restrictions."

In this and other matters, Ashtead is a quintessentially 1980s company, according to Lewis. "The political direction of the country has created a climate in which people want to share in their company's prospects," he says. "We could not have done this ten years ago."

An outdated view of globalisation

Christopher Lorenz examines a misunderstanding of Japanese practice

Ever since the concept of "globalisation", in all its confusing shades of meaning, was catapulted onto the executive agenda four years ago, managers in multinational companies have suffered a constant barrage of advice from consultants, advertising agencies and the media.

Much of it, especially in America, has told them to emulate the Japanese by producing standardised global products, and by shifting decision-making power from their far-flung autonomous subsidiaries to head office.

In most cases, this advice is wrong, according to Christopher Bartlett and Sumantra Ghoshal, two business professors who have made a detailed study of how multinationals are, or should be, reorganising themselves to meet the challenge of global competition.

The advice is not just formula-like, imitative and therefore inappropriate, but it is also based on a badly outdated view of Japanese strategy and organisation structure, they complain in an article on "organising for worldwide effectiveness", published in the latest issue of California Management Review.*

As western companies have begun to understand the daunting ability of the Japanese to co-ordinate their worldwide operations, the latter have been moving in almost the reverse direction.

The Japanese "are much more sensitive to the flip side of globalisation," suggest the two academics, who teach at Harvard and Insead business schools, respectively. The Japanese have been focusing on the growing demand of host governments for local investments, the emerging resistance of consumers to standardised global products, and the arrival of manufacturing technologies which are making small-scale production and tailored products much more feasible than in the past.

As a result, say Bartlett and Ghoshal, some Japanese companies are now organising themselves to achieve global co-ordination and national flexibility simultaneously, centralising some activities and decentralising others. Western companies should do likewise, each in its own way.

Among companies which are already well on the way to achieving this knife-edge balancing act, which the academics call the development of "transnational" capabilities, they cite Matsushita, the Japanese consumer electronics giant, and Ericsson, the Swedish telecommunications group.

Matsushita's managers devote considerable effort to building multiple linkages between headquarters and overseas subsidiaries, for instance. This is in order to avoid two common dangers: that the people developing a new product or strategy fail to understand market needs around the world, and that those required to implement that new initiative are not committed to it.

"Rather than trying to limit the number of linkages between headquarters and subsidiaries, or to focus them through a single point, as many companies do for the sake of efficiency," say Bartlett and Ghoshal, "Matsushita tries to preserve the different perspectives, priorities, and even prejudices of its diverse groups worldwide".

The organisational approach which enables Ericsson to retain local flexibility while achieving global integration was demonstrated clearly by the way it developed its first generation of "AXE" digital electronic telephone exchanges, suggest the academics. This was much more effective than the approaches taken by competitors.

Several key organisational factors underpinned Ericsson's success in standardising key elements of the system's design, while allowing for maximum local modifications, according to Bartlett and Ghoshal.

One was a long-standing process of temporary job transfers and joint task forces which linked people in the company's various national subsidiaries with each other and with head office. Another was a more formal system of inter-subsidiary boards and other forums where views could be resolved and differences resolved.

**Fall 88. 350 Barrows Hall, University of California, Berkeley, CA 94720. Tel 415-642-7159.*

LEGAL COLUMN

Lord Mackay's review may bring more work

By A.H. Hermann, Legal Correspondent

IT IS not so long ago that Mr Robert Alexander, then chairman of the Bar, told the Law Society: "Divided we stand, united we fall". For years the Bar has been opposed, not only to a fusion of the legal profession, but also to any new rights of audience for solicitors in the higher courts.

Similarly, the Law Society has been fighting a rearguard action against further inroads in solicitors' conveyancing business by banks and building societies.

Attitudes seemed to have changed radically in October when Lord Mackay, the Lord Chancellor, said that he intended to reach decisions about a thorough overhaul of the legal profession before next summer's parliamentary recess.

The announcement was welcomed by both branches of the profession, though its consequences are likely to be that it will not remain divided for very long and that the banks and building societies will get complete freedom of conveyancing.

The inevitability of change,long admitted by individual members of both branches of the profession, seems now to be recognised also by their representatives.

Mrs Margaret Thatcher, the Prime Minister, is reported to have encouraged the Lord Chancellor, but the pressure for change has come also from within the profession. Young barristers, unhappy about conditions in overcrowded chambers dominated by silks and clerks, are moving into solicitors' offices.

The large City law firms have nothing much to fear from the loss of conveyancing income, nor will they gain much from better access to courts. A substantial part of their business never touches the courts and most of the rest can be dealt with by judges in chambers, without barristers. They have highly qualified specialists among their partners and a wealth of legal know-how in opinions and pleadings stored in their computer memories.

'A reduction of costs and delays should open the vast reservoir of clientele'

The silent reform of City lawyering was brought about by the internationalisation of the City. To be able to provide the sort of service multinationals and banks obtain from US lawyers, City solicitors had to give up their traditionally cosy existences and grow rapidly in size and expertise. Frequent association with other European Community lawyers is broadening their horizons.

The quaint ways of the Bar – long-hand letters, unhelpful clerks, the absence of secretaries, fax, telex and answerphones and barristers' insistence on meetings taking place in their chambers - make British lawyers unlikely partners for their foreign counterparts and clients, even though they are now allowed to deal with foreign clients directly, without the intermediary of an English solicitor.

In the provinces, large partnerships move with the times, emulating the example of City firms, but the smaller partnerships, which still rely on conveyancing, probate, divorce and small crime, are probably in for a shock. When the reform proposals reach parliament in the second half of 1989 – some 200 years late – there will be much shouting and moaning, but it is a reasonable bet that Mrs Thatcher will win this final round against restrictive practices.

Ancient Indian wisdom relates: "to be where you are not, you must go the way on which you are not". To work according to old routines will not do, not even in conveyancing.

Solicitors should pioneer "honesty in conveyancing" as defined by the Conveyancing Standing Committee of the Law Commission. They should use more widely the software now available for computerisation of the routine part of the work. They ought to try to alleviate the consequences of long chains and delayed contracts by creative use of existing possibilities and by pioneering new arrangements, possibly in co-operation with building societies.

In other fields of legal work a reduction of costs and delays should open the vast reservoir of clientele which is not poor enough to claim legal aid, nor rich enough to pay its way under present circumstances.

As soon as this happens,the insufficient coverage of the north of Britain will expose the need for some migration of solicitors. Also, the provinces will need more solicitors able to advise on business problems – a field now dominated by accountants.

There are also untapped opportunities for lawyers in the area of administrative law. This has experienced an explosive growth since the introduction of Judicial Review under Order 53 of the Rules of the Supreme Court in 1977.

Eleven years later, the awareness of the possibilities it offers to the citizen aggrieved by a public authority is only sparse.

Few people realise that almost all decisions made by public bodies can be attacked in courts and that "free" advice can be obtained from a High Court judge by applying for leave. Completing a short form and an affidavit will prompt the judge to say whether he thinks there is a *prima facie* case.

Taking a longer view, lawyers in private practice should prepare for a rapid growth of business from central and local government – and not only in the well-established fields of taxation, customs and excise, social security and planning. There are so few lawyers in civil and local government service that they will have to call for advice and help from lawyers in private practice familiar with administrative law.

'Lawyers in private practice should prepare for a rapid growth of business from government'

One hopes that the Government's legal business will never reach the magnitude of that in the litigation-mad United States. The number of lawyers in US Government employment rose by 20 per cent in the four years of the Carter administration, and somewhat slower, from 17,268 to 18,698, during the eight Reagan years. This total does not include lawyers in uniform. With these there are, as calculated by the National Law Journal, 22,295 lawyers deployed in 39 Federal agencies.

The Department of Justice, which represents the Federal Government in courts, employs some 5,270 attorneys. More litigation lawyers are employed by the two agencies which can go to court on their own: 650 by the Securities Exchange Commission and 395 by the Equal Employment Opportunity Commission.

The greatest employer of lawyers – probably world-wide – is the Pentagon. The Department of Defence has 6,680, of which 4,772 are in uniform.

Military courts and adjudications account for only a part of this army of lawyers. Most seem to be advising on defence contracts – while still leaving room for private practitioners. Pentagon and Justice are followed on the ladder by Treasury with 1,885 staff lawyers. The US Commission on Civil Rights and the Farm Credit Administration are at the bottom of the ladder, with 20 and 15 lawyers respectively.

Nothing on this scale is likely to happen in the UK, but transatlantic experience suggests that government lawyering may become a growth industry.

LEGAL APPOINTMENTS

LAW SOCIETY ADMISSIONS 1ST DECEMBER 1988

ASKEY, Robert John LLB Mr, Birmingham.
BEAMAN, Nigel William LL.B Mr, Stafford.
BENCE, Ashley St-John LL.B Mr, Worthing, West Sussex.
BENNETT, Kirsten Elizabeth LLB Miss, London.
BINDRA, Balbir Singh LLB Mr, Hounslow, Middlesex.
BLANDY, Michael Peter B.A. Mr, Snitterfield, Warwickshire.
BRADFORD, Ian Clifford Mr, Manningtree, Essex.
BRAMMER, Alison Kay B.A. Mrs, Telford, Shropshire.
BREAR, Ruth Annetta B.A. Miss, Cheltenham, Gloucester.
BURNETT, Claire Louise LLB Miss, London.
BURNS, Michael Patrick LLB Mr, London.
CADWALADR, Stephen Kenneth LLB Mr, Bridgnorth, Shropshire.
CARROLL, Maureen Teresa LLB Miss, Llandudno, Gwynedd.
CARTWRIGHT, John B C.L., M.A. Mr, Oxford.
CHAMBERS, Adrian Paul LLB Mr, Kettering, Northamptonshire
CHAMBERS, Jennifer LLB Mrs, Newcastle, Staffordshire
CHAN, Man Yin Lilian Solicitor of the Supreme Court of Hong Kong Miss, Hong Kong
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CLAYTON, Georgina Ann Marie BA Ms, Nottingham
COCKLE, Derek Nigel LLB Mr, Surbiton, Surrey
COWAN, Alastair LL.B Mr, Honley, West Yorkshire
COWIE, Ron Philip LLB Mr, London
COWLEY, Lynn BA Ms, Sunderland, Tyne & Wear
COX, Steven David BA Mr, Sutton, Surrey
CRABTREE, James Ronald LL.B Mr, London
CRAFT, Robert Antony LLB Mr, Harrow, Middlesex
CUMMINGS, John Michael Mr, Langport, Somerset
CUNNINGHAM, Carolyn Jane LL.B Miss, Leicester
CURRIE, Margaret MA LLB Ms, Chelmsford, Essex
DACAM, Paul Adrian BA Mr, London
DAVIES, James Bowman LLB Mr, London
DAVIES, Liam Craig LLB Mr, London
DAVIS, Hui Chi Kwan Solicitor of the Supreme Court of Hong Kong Mr, Hong Kong
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DENTON, Shaun B.A. Mr, London
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ENGEL, Roy Eric BA Mr, Sutton, Surrey
EVANS, Deryn Wainwright LLB Mr, Cambridge
FAIRFAX, Gina Margaret LLB Mrs, Solihull, West Midlands
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FRIDAY, Maxine Adua LLB Mrs, Ealing
GAMBLING, Vivien Ruth BA Miss, London
GIBBER, Robert Avery BA Mr, London
GIBSON, Emma LL.B Miss, London
GOLDRING, Simon Mr, Rainham, Kent
GOVAN, Sureshkumar Bhaga LLB Mr, Lancashire
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GREENWOOD, John Richard Steele Mr, Colne, Lancashire
HADRILL, Richard Goodwin LLB Mr, Nottingham
HALBERSTAM, Simon Leonard Herman David LLB Mr, London
HAMILTON, William George LLB Mr, London
HANCOCK, Helen Mathias LLB Miss, London
HANKINSON, Michael BA Mr, Altrincham, Cheshire
HARVEY, Ruth Margaret LLB Miss, London
HAY, John Lindsay LL.B Mr, Beeston, Nottinghamshire
HEAD, Katharine Patricia BA Mrs, London
HEATON, Glenn LL.B Mr, Watford, Hertfordshire
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HOPPER, Nicola Jayne LLB Miss, Canterbury, Kent
HOWARD, Nigel Elliott LLB Mr, Sheffield, South Yorkshire
HUTCHINSON, James David Solicitor of the Supreme Court of New South Wales Mr, London
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PRATLETT, Melanie Fiona LLB Miss, Newmarket, Suffolk
PROBEE, Thomas Martin LL.B Mr, Bridlington, N Humberside
PROUDFOOT, Barry Andrew LLB Mr, Guildford, Surrey
RALPH, Nicholas John LLB Mr, London
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ROBERTS, Shan Harries LLB Mr, Uxbridge, Middlesex
ROBERTS, Sian Elerl Angharad LLB Ms, London
ROY, David Andrew Guy BA Mr, Sutton Coldfield, West Midlands
RYLAND, Elizabeth Joyce Mrs, London
SARKAR, Milan Jana BA Miss, London
SCIPIO, Ronald LLB Mr, London
SENIOR, John Guy Brent BA Mr, London
SHARRON, Valerie Suzanne BA Miss, London
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JONES, Kevin Owen BA Mr, London
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MARTIN, Margaret Louise B.A. Miss, London
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MCKINLEY, John Allen LL.B Mr, London
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SWEETLAND, Anne LL.B Ms, London
THOMAS, Elizabeth Margaret LLB Miss, London
TOMES, Jacqueline Alison LLB Miss, Chester
TSANG, Kam-Chuen Mr, Hong Kong
VEJA, Rajshi LL.B Mr, Leicester
VOCKINGS, Judith Anne LLB Miss, Stockport
WALSH, Nicholas John B.A. Mr, Southville, Bristol
WARD, Deborah Jayne LLB Miss, Pontefract, West Yorkshire
WATKINS, Eric Mr, Enfield Middlesex
WATSON, Carol Ann LLB Miss, Leeds
WELLBELOVE, Samantha Elizabeth Jill Curtis BA Miss, London
WHARTON, Juliane B.A. Ms, London
WHEELER, Patrick Oliver LL.B Mr, Warrington, Cheshire
WHITEHURST, Susan Karen LLB Miss, Beeston, Nottingham
WILKINSON, David Andrew LLB Mr, Bath, Avon
WOOD, Johanna May BA Miss, Sherborne, Dorset
WOODTHORPE, James Wellesley MA Mr, Woldingham, Surrey
WRAGG, Gaynor Lewis BA Mrs, Mitcham, Surrey
WYSAR, David Kenneth M.A. Mr, Ingleside, Earl Soham, Woodbridge, Suffolk
YOUNG, Claire Jane BA Miss, Hayfield, Stockport
ZOTIADES, Basil George MA Mr, London

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ARTS

Alastair Muir

Saskia Reeves and Greg Cruttwell

Smelling A Rat

HAMPSTEAD THEATRE

"Are you going back to Lanzarote, Mr Weasel?" The question seems a reasonable one, since Weasel has returned from the volcanic resort of black beaches only to find his benchman at the council pest control department, Mr Maggot, hiding in the fitted cupboards of his pink bedroom with his (Maggot's) wife while his (Weasel's) son, Rock, entertains a lisping girl-friend, Melanie-Jane Beetles, in the same roseate rendezvous.

Mike Leigh, having taken time out to re-think and re-charge his batteries, is back. Nigel Andrews has already hailed his new film, *High Hopes*, on this page. It opens in London next month. *Smelling A Rat* is Leigh's first stage work since *Goose-Pimples* (1981) and if you enjoyed that delirious concoction you will not want to miss this one.

As usual, the finished product arrives after an extended period (12 weeks) of rehearsals and improvisations. The mood is one of a regulated farce, the acting manner one of intense, heightened naturalism among characters of tenderly brutish awfulness. Man has evolved from a quadruped status, explains Timothy Spall's grotesquely loquacious Vic Maggot, in order to stand up and reach high kitchen units.

Something lurks here of the sad futility of our condition. And underpinning the entire scenario is a tragic rift between Rex Weasel (Eric Allan) and his peculiarly tall, gormless, loping, and traumatised son (Greg Cruttwell). Rock was always thrown out of his bedroom while Dad's men checked for rats. One day he found himself fully ejected. Mum, whom we never see but who might (according to Vic) be a promiscuous dypsomaniac, is still on Lanzarote.

Vic and Charmaine (Brid Brennan) have popped in after a party to check the rodent reading. Rex has unpacked his shirts and smalls with ferrety jerkiness, creases and golf cap firmly in place. He jumps in a cupboard to overhear his colleague. Long-haired Melanie-Jane, nervously chewing a mouth-full of split-ends in Saskia Reeves's revelatory performance, spots the bidet. "My mummy wants a bidet. She's agoraphobic."

Unfashionably perhaps, Leigh shows children living in Oedipal terror of invading parental territory. The electrically tentative conversation of Rock and Melanie-Jane, broken up with puerile perfume spraying games and sudden clinches of violent revulsion, has a disturbing quality no writer could possibly have composed at a desk.

Cruttwell's morose moron suffers mostly in silence, shedding sad looks like an abandoned heron, hair quiffily upstanding. His lines, when they come, are devastatingly funny. "I saw Keith Chegwin the other day in W H Smith's" is funny even if you have never seen the egregious Chegwin on children's TV, show-stopping if you have.

All the performances are poised on some brink of either urgency or dismay, both in the case of Spall's Maggot. This white collar Falstaffian toad, a cringing slob whose mock conciliatory get-thee-behind-me gestures are delivered with a braying adenoidal obbligato to his wife's inane tittering, has a job to protect, a boss to impress, a past to hide, a talent too abstruse.

His words cascade in a spittled shower of mixed-up proverbs and outbursts linked with an all-purpose "In as much as." On his exit to fight the cockroaches in Colindale, he even bids "Au revoir, in as much as goodbye."

When the light fades I had the unique and unusual sensation of really wanting to know what might happen next. A great evening.

Michael Coveney

ARCHITECTURE

Bolton has the latest look

A tropical paradise alongside a giant supermarket mirrors the trend in town centre planning, reports **Colin Amery**

The instructive way to approach Bolton is to travel the short distance from Manchester by train. First of all you have the pleasure of using Manchester's Victoria Station, which still has promising destinations listed on its glass canopy: you could be lured to Harrogate, Blackpool and Belgium and there is a a diagrammatic map (circa 1901) on ceramic tiles that makes Lancashire look like an adventure trail.

You also get a glimpse, between deadly modern blocks, of Alfred Waterhouse's soaring Town Hall tower. At this time of the year this Victorian masterpiece has to endure kaleidoscopic Christmas illuminations and the tower is being embraced, King-Kong style, by a giant inflatable Santa Claus.

The industrial landscape between Manchester and Bolton is a depressing scene of environmental decline. There are still smoking spoil heaps and insensitively designed factories. But when you arrive at Bolton there are signs that things are changing. The town last week celebrated 150 years of independent local government and two schemes of urban renewal also mark this anniversary. They are worth examining since they represent the building types currently much favoured for inner-city revitalisation.

The Market Place is a mixture of old – but refurbished – and new retail premises and substantial multi-storey car-parking. The Water Place is one of the newest breed of leisure and swimming pools alongside a major new supermarket and surface car park. Leisure and consumption are the motivating forces in town centre development and throughout the *country they are producing a mixed bag of new architecture.*

The Market Place has come about from a partnership between the local authority, a private developer, Grosvenor Developments Limited, and the government, who have backed it with an urban development grant. The site, on the fringes of the town centre, was derelict and almost outside the magic circle of retail interest.

But it did have one prize asset: a Victorian Market Hall of the 1850s. This is stone and classical on the exterior and almost gothic inside, with cast-iron tracery defining nave, aisles and transepts. The architects for the new development, Chapman Taylor Partners (main designer Mr Nigel Woolner), have refurbished the market and added two levels of new shopping leading to a department store and three levels of car parking.

It all adds up to a large block of town and the architectural decision was taken to make a positive and strong contribution.

Bolton certainly has some powerful buildings. The town hall, with its giant portico and French-looking central tower, was designed by William Hill in the 1860s and it is, on a smaller scale, almost as powerful as Leeds town hall. I was fascinated by the crescent of classical municipal offices behind the town hall that were completed as recently as 1939. The architects Bradshaw, Gass and Hope worked in the classical tradition in a spirited and original way.

There is a large crop of decent churches, all with prominent spires or towers. The late 18th-century St George's (now a craft centre) is a very strong brick classical design and there are some good non-conformist chapels. I wonder what the founder would have thought of the Wesleyan chapel becoming what it is today, the "Wilton Casino" . . .

Edwardian brick and stone banks and union buildings in Bolton are all florid and strong architecturally but many are derelict or empty and much of the edge of the town centre has been given up to car parks.

The architect's problem at the Market Place was how to squeeze the world of Marks and Spencer, Tie-Rack, Next and Debenhams plus 700 cars into a building that would not be just another a lumpen commercial excrescence. Somehow he has done it and in the process made a powerful, if puzzling, architectural statement.

Inspired by the richness of Victorian and Edwardian Bolton, the new centre is a series of elaborate towers topped by cupolas that are clearly influenced by the bell-shaped top of the town-hall tower. The substantial car park is concealed behind slate roofs and green and red grilles that resemble Oriental screens. The principal materials are brick and stone following the arcaded walls of the older market building.

The scheme works best on St. George's Street and Knowsley Street; it is not so good on Bridge Street where the concrete car park ramp is only too visible and you are in the world of the "dry riser inlet" and service entrances.

Inside, the refurbished Victorian market looks splendid. The new shopping mall is linked to it in spirit and, in its way, achieves a sense of retail theatre: the domed rotonda with its mosaic floor and swooping escalators has drama. It is not the architects' fault that the standard retail mixture in shop fitting and display scarcely rises above a bland styleless uniformity. In all the public malls there are mouldings and marbling, a "Victorian" fountain and Lutyens-style garden benches – all effective attempts to enrich the surroundings.

Architecturally, particularly from the outside, the new centre puzzles me. Why does it look so Chinese? The roof pitch, the red screens, the curious towers do not add up to any known English tradition. The scale is palatial, the ambiance agreeable and the total effect is original. I think we have to remember that only a few years ago it would all have been built in concrete or clad in tiles like any old Arndale centre. Today we have elaboration, good materials and a new richness. The style has a long way to go before it is an architectural language: at the moment Bolton has the latest look – only time will tell whether it dates or matures.

The Water Place, designed by architects Faulkner Brown and Partners, is the latest sort of leisure centre. All over the country, even up in the Orkneys, palm trees are growing in new heated leisure pools. At Bolton, a simple and elegant post-modern exterior encloses warm lagoons, aquaslides, tidal waves and gushing geysers.

This tropical paradise is alongside Morrison's giant supermarket. It is hard to believe that you are in Bolton and *not* on Bondi Beach. The new inner city creates fantasy worlds indoors that are exotic and nostalgic. Architects are forced to follow the language of advertising and consumer desire and one thing is clear – the customer loves it.

Mike Arron

The new Market Place in Bolton, Lancs, a product of the retail revolution, takes its inspiration from its Victorian and Edwardian neighbours.

St. Francis

FESTIVAL HALL

Olivier Messiaen, like Elliott Carter, turned 80 this weekend and heroic efforts have been made on the South Bank to celebrate both of them in style. A truly extraordinary effort on Saturday – with a long list of sponsors – secured the first British performance of Messiaen's opera *Saint François d'Assise* for the main hall. It was distinctly more than just "semi-staged," for the director, Michael Rennison, and the designer, Mark Wheeler, contrived to have it enacted upon runways and platforms amid and above Messiaen's gigantic orchestra, backed by panels of Umbrian landscape and the London Philharmonic Choir.

Including two intervals it lasted five magniloquent hours, with only minimal signs of flagging among the principals, the choir or the LPO itself and none at all from the keenly committed conductor, young Kent Nagano. Music aside, the action is hardly strenuous: the Saint meets a leper in Act 1, an Angel and a lot of wildfowl in Act 2 and death in Act 3, all with accompanying meditations. Though the musical demands on the performers (and the audience) are strenuous indeed, the only compromise was to allow the Saint and the Angel to deliver parts of their long, fairly static roles from their scores; the lesser brethren and the leper sang and leapt by heart.

Messiaen was 75 when he completed the score and it is almost as much a conspectus of his utterly idiosyncratic mature music as a new work. Not only are there all the familiar gestures, devices and colours but whole passages from earlier pieces are cited and recycled. In the super-vivid contrasts of the music lies all the "drama"; there is none of the ordinary kind, for which Messiaen felt unequipped – the form of the piece is hieratic, devotional, frieze-like. The long-prepared arrival of the anguished leper (Kenneth Riegel as usual brilliantly effective) makes a lively conclusion for the first act and the last relies upon massive orchestral assault; the lengthy middle act, the Sermon to the Birds, recommended itself as a natural climax of Messiaenic effusion.

An ounce more mature authority would have enhanced David Wilson-Johnson's Francis but he was eloquently tender throughout. The Angel was Maria Oran, poised and mellifluous, and the lesser brethren were cast from strength: Nicholas Isherwood, John Graham-Hall and Jean-Philippe Courtis as the Saint's closest disciples; Ragnar Ulfung as the irascible one who doesn't recognise an angel when he meets it. It all amounted, certainly, to an Experience; and if Messiaen has his imitators, none of them is likely to try to match this one.

David Murray

Schoenberg and Brahms

FESTIVAL HALL

Schoenberg's late Piano Concerto, richly substantial, fascinating, always eminently worth hearing, formed the first half of Friday's Royal Philharmonic Orchestra concert. It is a work with an admitted autobiographical "programme" – a cycle of emotional progress from calm to storm and into concluding resolution – which the composer bound together with characteristic concentration into a single musical movement.

It is a difficult work to bring off in performance, however, because of the tension that seems to exist between the "popular" aspects of the work and its harmonic idiom; but in a carefully prepared and unified performance the peculiar blend of astringency and serenity can be brought off to admiration, the tension turned to powerful dramatic effect.

Unfortunately, Friday's performance was clearly very far from carefully prepared and unified. The soloist, Emanuel Ax, played with magnificent clarity, purpose and intelligence, bringing a command and understanding of his role that shone through in every bar.

It was a different matter with the RPO under André Previn: rhythms slack (the fast triplets of the finale were all over the place), phrasing uncertain, an air of uncommitted read-through hanging thick and heavy over the proceedings. A Schoenberg performance that is not a convinced or convincing unity will win the work few new friends.

In the second half the orchestra was joined by the Brighton Festival Chorus (in somewhat lax, uncertainly tuned form) for the Brahms German Requiem.

It was graced by an account of the soprano solo, from Arleen Auger, purer, cleaner and more shiningly beautiful than any other I have ever heard. Apart from that, there was little to recommend Previn's view of the work. It lacks tension – no dark struggles take place in the first two movements, no beneficent relief follows thereafter – and engagement.

Nothing was controversial or out of place (apart from the chorus sopranos in their high phrases). And, except for the splendid Miss Auger, nothing was in the least memorable.

Max Loppert

Frans Brüggen

QUEEN ELIZABETH HALL

Memories of his Barbican concert with the Orchestra of the 18th Century are still wondrously vivid but Frans Brüggen returned to London on Saturday to conduct one of the capital's own foremost period-instrument bands. The Orchestra of the Age of Enlightenment's declared policy of tying itself to no single conductor continue to set it apart from its rivals; the international roster of musicians who have worked with it this year is distinguished and one which it's to be hoped will continue under the orchestra's new administration.

Brüggen conducted Mozart's C minor Mass K.427 and the Eroica Symphony. He has recorded the Beethoven with his own orchestra and therefore the revelations that his interpretation brings are no longer as amazing as they are invigorating. Ultimately the OAE lacks the polish of its Dutch counterpart, the virtuosic panache and tonal control but the playing it produced here was positive and bristling with close intelligence and accomplishment. The buoyant sweep of the first movement, the thoroughly natural moulding of the funeral march (never allowed to dwell or drag) and sheer physical address of the scherzo and final variations were the Eroica's pre-eminent features but detail after detail lodged in the memory too – Brüggen's languid platform gestures disguise an astonishing precision. The subtle inflections given to rhythms and the adroit touching-in of instrumental colours reached their greatest refinement in the last movement and the OAE's concentration showed no signs of faltering at the end of a long evening; the feeling of accumulated energy exuberantly discharged was overwhelming.

The C minor Mass had been equally inspiriting, though it was in some respects a surprisingly austere performance, with an all-male chorus (the Choir of New College, Oxford) to lend bite and penetration. The large set pieces were exemplary in their lucidity – the layers of "Qui tollis" and the fugal "Cum Sancto Spiritu" thrillingly exact – and the team of soloists, led by Diana Montague and Lillian Watson (unfailingly elegant at "Et incarnatus"), was polished and attentive.

Andrew Clements

La Transfiguration

WESTMINSTER CATHEDRAL

As part of the Messiaen 80th birthday celebrations and the BBC's Berlioz/Messiaen series, Messiaen's 90-minute choral-orchestral work *La Transfiguration de Notre-Seigneur Jésus-Christ* was performed by the BBC Symphony Orchestra, Singers and Chorus under David Atherton on Thursday night. The setting of Westminster Cathedral could not have been more appropriate to Messiaen's musical reverencing of Catholic truths; and the completely full pews, faintly lingering smell of incense, dimmed lighting and sense of gigantic space already contributed to a satisfactory religious impression before the religious music started. The large number of musicians was easily housed in the chancel, over which the giant baldachin immensely loomed.

The work (written 1965-9) is an oratorio of a highly liturgical kind. Four passages of "gospel narrative," all from *Matthew* 17, and describing Christ's transfiguration before three of his disciples on a sacred mountain, are each followed by two meditations drawing on other textual sources, and the work's two big parts, or "septenaries," are rounded off by chorales. A great clamour of gongs, cymbals and tam-tam announces the gospel narratives.

The meditations are elaborate, and make use of Messiaen's familiar vocabulary of birdsong-figurations, sickly modal melody, and over-egged harmonies which, though often meant by the composer to be so specific as to express actual colours, strike my ear as stultifyingly undifferentiated. In two of the meditations Messiaen allegedly paints the mountain itself upon which the transfiguration happens. Elsewhere he sets a gristly chunk of Aquinas. There is nothing surprising or new in the work – Messiaen is as repetitive and true to himself and as hard to preach to the unconverted (in this case myself) as Bruckner – though a sombrous note, a liturgical austerity seem to have limited the composer's usual capacity for ecstatic grandeur.

A limitation on grandeur was also imposed by the performance itself. Though the singers and players gave evidence of struggling valiantly against it, the cathedral acoustic necessarily militated against them, and muddied their best efforts. The strings often sounded recessed, the solo piano (Paul Crossley) was reduced to a thin clanginess, the solo cello (Moray Welsh) to a morbid lyrical throb. Even the instrumental birdsong concertino could not flare up very strikingly. The chorus, though accurate and diligent, usually lacked a bright edge, and, for purely acoustic reasons, sometimes sounded sluggish. At other times, though, the voices achieved fine things: for instance the women's sinuous unison with the orchestral wind in the penultimate movement was deft and glowing. David Atherton conducted with skill, and the great structure certainly cohered, even if, for me, it failed to engage intense interest.

Paul Driver

ARTS GUIDE

December 9-15

Royal Philharmonic Orchestra, with the Brighton Festival Chorus, conducted by Andre Previn. Schoenberg, Brahms. Royal Festival Hall (Mon) (01-928-8800).
London Philharmonic Orchestra, conducted by Klaus Tennstedt. Schoenberg, Mahler. Royal Festival Hall (Tues) (01-928-8800).
BBC Symphony Orchestra, conducted by David Atherton. Messiaen, Berlioz. Westminster Cathedral (Thurs) (01-928-8800).

Paris

Edda Moser recital, with Dalton Baldwin, (piano) Theatre de L'Athenee (Mon) (47.42.67.27).
Nouvel Orchestre Philharmonique, with the Radio France Choir conducted by C. Bardon. Fiorentz, Mendelssohn. Saint-Germain-des-Pres (Tue) *(42.30.15.16).*
Ensemble Orchestral de Paris conducted by Georges Lehel, MariaTipo, (piano). Mozart Salle Pleyel (Tue) (45.63.88.73).
Aldo Ciccolini, piano. Debussy, Ravel, Satie. Salle Gaveau (Tue) (45.63.20.30).
Georges Pludermacher, (piano). Haydn, Schubert, Debussy. Salle Gaveau (Wed) (45.63.20.30).
Orchestre de Paris conducted by Daniel Barenboim, Isaac Stern,(violin). Beethoven, Dutilleux, Tchaikovsky. SallePleyel (Wed, Thur) (45.63.88.73).

Nouvel Orchestre Philharmonique conducted by Emil Tchakarov. Roussel, Mozart. Theatre des Champs Elysees (Thur) (47.20.36.37).
Ensemble Orchestral de Paris' soloists. Brahms, Messiaen (Thur)Salle Gaveau (45.63.20.30).

Amsterdam

Royal Concertgebouw Orchestra under Neeme Jarvi, with Boris Berman (piano). Nordheim, Prokofiev, Nielsen. Concertgebouw (Fri).
Radio Chamber Orchestra conducted by Lucas Vis with Roger Woodward (piano), Martin Kaay and Renee Domen (guitars). Mendelssohn, De Leeuw, Messiaen, Mozart. Concertgebouw (Sat, matinee).
Rotterdam Philharmonic conducted by Edo de Waart with Nigel Kennedy (violin). Walton, Holst. Concertgebouw (Sat).
Netherlands Bach Orchestra, conducted by Willem Wiesehahn with the Amsterdam Mixed Choir and soloists in Bach's Christmas Oratorio. Concertgebouw (Sun, matinee).
Horatio Gutierrez piano recital. Concertgebouw (Sun).
Royal Concertgebouw Orchestra, Neeme Jarvi conducting, with Boris Berman (piano). Svendsen, Prokofiev, Reger (Wed, Thur). Concertgebouw (718 345).
Juilliard String Quartet. Haydn, Janacek, Beethoven. (Fri) Recital Hall.
Juilliard String Quartet. Mozart, Carter, Franck. (Sat) Recital Hall.
Guher and Suher Pekinel (piano) with percussionists. Bartok, Schubert, Gershwin, Bernstein. Beurs (Damrak) (Sat).
New Netherlands String Quartet. Schubert. (Tue) Recital Hall.
Netherlands Philharmonic conducted by Bryden Thomson and Nobuko Imai (viola). Vaughan Willaims, Walton, Elgar. Beurs (Damrak) (Sun).
Victor Liberman conducting the Utrecht Conservatory String Orchestra. Shostakovich, Glazunov, Tchaikovsky. (Mon) Beurs (Damrak) (27 04 66).

Utrecht

David Zinman conducts the Radio Philharmonic and Heinrich Schiff (cello). Sibelius, Schumann, Brahms. Vredenburg (Sat).
Radio Symphony Orchestra, conducted by Jean Fournet with the Broadcasting Choir and soloists. Poulnec, Les Six. Vredenburg (Sun, matinee).
Amsterdam Bach Soloists Bach (Brandenburg Concertos) Vredenburg (Sun).
Guher and Suer Pekinel (piano) with percussionists. Bartok, Schubert, Gershwin, Bernstein. Vredenburg (Mon).
Yehudi Menuhin conducting the Netherlands Philharmonic, with Dong-Suk Kang (violin). Badings, Dvorak, Mendlessohn, Schubert. Vredenburg (Wed).
Geoffrey Douglas Madge (piano) with the Schonberg Quartet. Beethoven, Hindemith, Franck (Mon). Vredenburg (31 45 44).

Eindhoven

Amsterdam Bach Soloists. Bach (Brandenburg Concertos) (Sat). Globe (11 11 22).
The Bucharest Madrigal Choir. Lassus, Palestrina, Monteverdi. POC Theatre (Tue).
The Mozarteum Piano Trio. Eder, Mozart, Beethoven (Wed).
Mauricio Kagel conducting his own compositions with the New Ensemble (Thur). POC Theatre (51 38 33).

Vienna

Wiener Bach soloists, conducted by Ernst Wedam. Dora Schwarzberg, (violin). Beethoven, Schubert. Musikverein. (Fri).
Wiener Symphoniker, conducted by Sandor Vegh, with Erich Hobart, (violin). Haydn, Mozart. Konzerthaus (Fri).
Boston Symphony Orchestra, conducted by Seiji Ozawa. Mahler. Musikverein. (Sat, Sun).
Haydn Trio. Mozart, Martin, Mendelssohn. Konzerthaus. (Sun).
Moskauer Kammerorchester, conductor and soloist (violin), Viktor Trejakow. Vivaldi, Bach, Bartok. Musikverein (Mon).
Chamber Orchestra of Europe, conducted by Yehudi Menuhin, with Marieke Blankesteijn (violin), Andrea Lucchesini, (piano). Schubert. Konzerthaus (Tues).
Camerata Academica, conducted by Sandor Vegh, with Andras Schiff (piano), Heinz Holliger, (oboe), Aurele Nicolet, (flute). Mozart. Konzerthaus (Wed).
Austrian Radio and Television Symphony Orchestra, conducted by Heinz Holliger. Mozart. Konzerthaus (Thurs).

Cologne

Gershwin-Gala 88. Porgy and Bess with the American Opera Orchestra under Emmett Steele with soloists Karen Parks, Emerson Green and Assia Zlatkova. Philharmonie (Tues, Wed).

Frankfurt

James Galway and pianist Philip Moll. Dvorak, Feld, Back and Prokofiev. Alte Oper (Sun).

Berlin

Berlin Philharmonic under Lorin Maazel. Yun, German premiere of D. Glanert, R. Strauss and B. Blacher. Philharmonie (Sun, Mon).

Munich

Cherubini Quartet and Eduardo Trio Fontenay. Beethoven, Brahms and Dvorak. Alte Oper (Sat).
Fernadez (guitar). Haydn, Bach and Castelnuovo-Tedesco. Herkulessaal der Residenz (Sun).
Boston Symphony Orchestra under Seiji Ozawa. Rossini, Mozart, Beethoven. Munchen, Herkulessaal der Residenz. (Mon).

Rome

Anryn Quartet. Haydn, Wolf and Beethoven. Auditorium in via Della Conciliazione. (Fri).
Gonfalone Orchestra with violinist Federico Agostini. Mozart Oratorio del Gonfalone (Thur) (687.59.52).

Milan

Jean Philippe Collard piano recital. (Tues) Teatro Piccolo. (8690631).

Genoa

Milan Horvat conducting Shostakovitch with soloist Antonio Meneses, (piano). Kodaly and Bartok. Teatro Margherita (Sat. and Sun.) (58.93.29)

New York

Musica Sacra directed by Richard Westenburg with counter tenor Paul Esswood and vocalists Marvis Martin, Vinson Cole and Jan Opalach. Avery Fisher Hall, Lincoln Center (Mon) (874 6770).
New York Philharmonic conducted by Zubin Mehta, Leon Fleisher (piano). Carter, Britten, Ravel. Avery Fisher Hall, Lincoln Center (Tue) (799 9595).
Chamber Music at the Y. directed by Jaime Laredo. Rossini, Mozart, Villa-Lobos, Beethoven. Kaufmann Hall, 1395 Lexington Av (Tue, Wed) (427 6000).
Prism Chamber Orchestra conducted by Robert Black. Beethoven, Stephen Jaffe, Stephen Dembski. Merkin Concert Hall (Wed) (362 6719).
Anne-Sophie Mutter violin recital. Tartini, Beethoven, Franck, Ravel. Carnegie Hall (Wed) (247 7800).
New York Philharmonic conducted by Zubin Mehta. Messiaen, Mozart. Avery Fisher Hall, Lincoln Center (Thur) (799 9595).

Chicago

Clarion Trio. Schubert, Beethoven, Kodaly, Dohnanyi. Orchestra Hall (Mon) (435 8122).
Chicago Symphony Orchestra conducted by Gunther Herbig. Shura Cherkassky (piano). Haydn, Tchaikovsky, Brahms. Orchestra Hall (Tue) (435 8122).

Tokyo

Kodo. Virtuoso Japanese drum troupe who perform both modern and traditional pieces. Theatre Apple (209 0222) Until December 18.
NHK Symphony Orchestra, conducted by Marek Janowski. Saint-Saens, Strauss. Suntory Hall (Mon) (505 1010).
Stuttgarter Philharmoniker & Philharmonia Chor conducted by Wolf-Dieter Hauschild. Beethoven. Showa Women's University Hitomi Memorial Hall, near Sangenjaya (Thurs) (780 5400).

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Propping up the thrifts

THE PROBLEMS of the American savings and loan industry are not the most eloquent testimonial for the workings of financial deregulation. Some 500 of these institutions, known as thrifts, are insolvent. The chief provider of deposit insurance to the industry, the Federal Savings and Loan Insurance Corporation (FSLIC), is bankrupt. The task of winding up insolvent thrifts – which could cost anything from $50bn to $100bn – has constantly been deferred; yet it becomes more urgent by the day as the cumulative loss mounts up.

Washington's handling of the issue will be watched with some interest in Europe, where the liberalisation of financial markets is already under way. What are the lessons for regulatory authorities both in and out of the United States?

The biggest and most obvious lesson is mercifully irrelevant to most of the European mortgage credit market; that is, there could have been no worse starting point for extensive deregulation than the one that the thrifts found themselves in at the start of the decade. Inflation and the removal of regulatory ceilings on deposit interest had pushed up the cost of their liabilities while the return on assets remained fixed. So they were granted powers to extend their activities beyond the home loans market just when the erosion of their profits gave them an incentive to seek more risky business. At the same time the industry's regulatory apparatus was allowed to run down while 100 per cent insurance for retail deposits remained in place.

Painless speculation

For the entrepreneurial businessman, running a thrift now represents an opportunity for painless speculation. In the meantime the $100,000 ceiling for deposit insurance has led to the growth of a thriving brokerage industry which provides large depositors with a spread of deposit accounts in order to multiply their insurance cover. The more solvent thrifts, meantime, are locked into an insurance system that requires them to pay for the adventures of the corrupt and the foolish. All in all, a case of moral hazard run riot.

The immediate need is to close those loss-making thrifts that are borrowing to pay interest and to end the costly temporising, whereby FSLIC gives open-ended commitments to private sector rescuers in exchange for inadequate injections of new capital. Realism probably dictates that the cost will simply be added to the federal government debt and excluded from the Gramm-Rudman targets for the reduction of the budget deficit. Certainly to alter the fiscal stance on the basis of so much water under the bridge would be foolish, even if earlier profits from the insurance scheme have been counted as budget revenue.

Wholesale reform

But this raises the risk of further moral hazard if government bail-outs are seen not to cost the taxpayer more than the interest on the additional federal debt. It follows that an off-budget solution should be accompanied by wholesale reform of the deposit insurance scheme. For a start, the scheme should be run much more on private sector lines.

Reducing the cover from 100 per cent to, say, 90 per cent would be an obvious step, while the practicalities of limiting insurance cover to $100,000 for a single individual would clearly be worth considering. In the absence of any move to assess the risk in thrifts on an individual basis, which would be difficult in such a huge industry, more and better supervision is essential. And as Mr William Seidman, the respected head of the Federal Deposit Insurance Corporation has suggested, allowing the authorities to terminate the insurance more rapidly would be a powerful deterrent.

These remedies are, however, appropriate to a peculiarly American problem. There is nothing here to alarm Europeans as they move to a single market in financial services. The one regulatory point that is relevant on both sides of the Atlantic is that the distinction between savings institutions and commercial banks is rendered thoroughly anachronistic by deregulation. But that particular nut may take some time to crack.

House owners cash in

THE boiling over of house prices in the south-east of England is becoming a classic instance of the effective power of markets. Fresh evidence of this is to be found in a paper published by Shearson Lehman Hutton at the weekend. Its authors, John Muellbauer and Anthony Murphy, estimate that something like 100,000 individuals, constituting around 35,000 households, will have moved out of the region this year.

Departure

This is composed of an estimated net departure from the United Kingdom of some 30,000 people, plus a further 70,000, net, who will have sold up in the south and moved to the Midlands or the North. The figure for net migration to the rest of the United Kingdom is "the highest since the Blitz". The expectation is that the process will continue at a high level next year.

Estimates of this kind can only be as accurate as their assumptions are reasonable. Muellbauer and Murphy first analyse the patterns of regional migration within the UK and then go on to a model of the forces determining migration into and out of the country.

The most important determinant of internal migration is the difference between the (high) house-price/earnings ratio in the south-east and the same (lower) ratio in the rest of the country. The 1987-88 average of this differential has now reached a peak. Not surprisingly, house-owners started cashing in and moving out in 1987, just as they had in the early 1970s at the time of the Barber house price boom. Most of the regional emigrants are presumed to be older people. As employment is growing less strongly in the south than elsewhere, fewer young people are moving in to take their place.

Since most immigrants to the United Kingdom come to the south-east, high prices are reducing the inflow. At the same time, it is assumed, some of the British home-owners who are realising their assets and moving to retirement homes are choosing cheaper property in Spain, Portugal and France. The potential immigrants, mostly from the EC, the old Commonwealth and the US, are also influenced by the relative growth in wages, jobs and income per head in their countries. The slower growth (some would say recession) in UK financial services probably offsets the advantage of the higher rate tax cuts in the Budget.

The authors acknowledge that there is "one long overdue favourable implication" of these trends. The rest of Britain will benefit as jobs as well as households relocate outside the south-east. This is the market economy working at its best. But they remain concerned about the effect of high house prices on wage inflation. And to them, higher net emigration implies a brain and skills drain which, in view of the UK's poor performance in training and education, it can ill-afford. They also calculate, on assumptions that have a less plausible feel about them than the rest of their paper, that emigration will result in a net capital outflow that could be as high as £4.6bn, or equivalent to about a third of the possible current account deficit this year.

If the migration estimates are broadly right, the beneficial effects will surely outweigh the rest. Overall house price inflation in Britain is largely a product of national taxation policies; even without the necessary changes in taxation the market could not rise for ever. The present interest rate regime does seem to have begun to put a lid on it.

Meanwhile the south-east continues to feel overcrowded. Many of its inhabitants are broadly anti-pathetic to the idea of much further building in the region. If households, employment, and some of the wealth now moves to other parts of the country, all regions should be better off. Whatever the arguments for greater investment of taxpayer's money in improving the infrastructure of the decaying parts of the Midlands, the North and the Strathclyde region of Scotland, the fact is that the market seems to be doing quite well on its own.

Opening a series to mark Ronald Reagan's retirement, **Stewart Fleming** assesses his political legacy

The bequests of a popular President

The most appropriate symbol for the end of the Reagan era is a question mark. For, as the 77-year-old President prepares to leave office, more than usual uncertainty surrounds the durability of many of his achievements, the longer term impact of the policies he has pursued and even the political character of the man widely portrayed as the most conservative White House incumbent of modern times.

Take, for example, the question which, more than any other, helped to ensure that, in 1980, President Jimmy Carter did not win a second term. Are Americans better off today than they were in 1980? The only answer which one can give with any confidence today is "Maybe".

In assessing his economic record, Mr Reagan's supporters can point to six successive years of economic growth, moderate inflation and a resurgence of manufacturing industry. But worrying long-term productivity trends have not improved significantly. US economic imbalances threaten the stability of the world economy and inhibit the flexibility of fiscal and monetary policy at home.

What about Mr Reagan's claim that he has restored American prestige around the world? Although America's relative influence in the world is diminishing, there have certainly been important gains since the dark days when it was made to look both impotent and, through a botched rescue mission, incompetent, by Iranian revolutionary hostage takers.

The transformation of US/Soviet relations, for which Mr Reagan can claim a share of the credit, and which last week took on a historic dimension, looks increasingly like a solid foundation for the future.

But the success scored by Mikhail Gorbachev, the Soviet leader, in once again dominating the world stage and using Mr Reagan and Mr Bush – as well as the American media and the New York skyline – as his supporting cast was a sharp reminder that it is the Soviet President, not the American President, who has seized the initiative. This is true on a range of issues covering not just arms control, but also, for example, the environmental challenge.

Galling as this must be to Mr Reagan's advisers who helped create his "Teflon" non-stick presidency, they must surely admire the political skill the Soviet leader is displaying. For he seems to be achieving his important propaganda victory at a time when, as Mr Reagan delights to point out, communism as an economic mechanism and political philosophy is on the defensive. It is a time, too, when the Soviet Union has its back to the wall trying to create a society and an economy which will function effectively in today's high-technology world.

At a more mundane level, even Mr Reagan's domestic political legacy is in doubt. In the view of Mr Paul Weyrich, head of the Free Congress Foundation and one of the most influential figures on the Republican right, the conservative President has failed to build an enduring conservative Republican coalition for the future.

"His most enduring legacy has to be in the federal judiciary" where about half the judges now are "fairly conservative," says Mr Weyrich.

Just how far short of his partisan aspirations Mr Reagan has fallen was driven home a few weeks ago in the elections. For the first time in the post-war era a new President was elected while his party lost seats in both Houses of Congress.

"The Republican Party has only achieved victories at the top," in spite of the hundreds of millions of dollars it has spent on elections over the past decade, says Mr Weyrich. He maintains that, until it breaks through in local elections, its capacity to put its governing philosophy into action will be severely constrained.

Nevertheless, when Mr Reagan leaves office on January 20 he will be completing his term as the most popular President since Dwight Eisenhower and ending what by any standards must be judged a remarkable political career.

"He is just as simple and just as mysterious as our collective dreams and memories," wrote the historian, Gary Wills, in one widely praised interpretative biography which sought to explain Mr Reagan's relationship with his countrymen.

Shot and almost killed in his first months in office, he demonstrated a fortitude which endeared him to the nation. He demonstrated it again, perhaps even more remarkably, in 1986 and 1987 when he first underwent cancer surgery and then endured the protracted political torture visited upon his Administration by the zealots in it who traded arms for hostages held by Iranian-backed terrorists.

The affection for a President whose natural optimism has never deserted him and the successes he has recorded, even though some of them may prove more ephemeral than his supporters believe, have had an important impact on the political culture of the country.

"Ronald Reagan came to Washington to bury government not to praise it . . . He wound up presiding over a resurgence of trust in the country's political institutions," wrote the authors of a report in Public Opinion magazine in December 1987, summing up what many still see as one of the most important achievements of the Reagan presidency.

It is an achievement which is easy to underestimate, if viewed from too short a perspective.

But go back to 1964, when public opinion polls showed that 76 per cent of the American people trusted their Government in Washington to do what was right most of the time. Then chart the erosion of this confidence as the national trauma of Vietnam, the civil rights riots, assassinations, inflation and recession undermined the nation's self-esteem, so that by 1980 this figure had fallen to only 25 per cent. Then the recovery under Mr. Reagan to well over 40 per cent in 1987 rises in significance, even though it is still partial and vulnerable to reverses.

'This conservative President has failed to build an enduring conservative Republican coalition for the future'

What is striking too is, that as Mr Norman Ornstien, a political analyst at the American Enterprise Institute, a Washington think tank, points out, the power of Congress has also been enhanced during the Reagan presidency. By 1987 Mr Reagan had become the first President in post-war history to find himself losing more legislative battles than he won.

Coalition Government between Capitol Hill and the White House is now, after the 1988 election, firmly entrenched, which will test to the limits the political skills of President Bush, his Secretary of State, James Baker, and his Director of the Office of Management and Budget, Richard Darman.

A positive sign, perhaps, is that, paradoxically, Mr Reagan has had a less far-reaching influence on the intellectual climate of American politics than his most ideologically inflexible conservative supporters had hoped, while still forcing his liberal opponents to think deeply about the policies they support.

He has erected one intractable obstacle to the ambitions of his liberal Democratic opponents – the federal budget deficit, which is still running at close to $200bn a year, if the windfall revenue of the social security surplus is discounted as it should be.

The persistent budget deficits, to the extent that they reflect both Mr Reagan's and the Congress's refusal to cut spending on social security programmes for the middle class, are testimony to the President's failure to attempt to achieve his goal of dismantling the New Deal welfare state.

But, as Mr William Schneider, a political analyst at the American Enterprise Institute, has pointed out, by resisting tax increases the President has "pulled the revenue plug" on the Federal Government, forcing liberals to rethink the role of government in helping the poor and address directly the question of how they would fund increased social programmes.

This mixed legacy is forcing conservatives to think more deeply about how a society like America's can be persuaded to embrace policies which are radical and untested. Mr Weyrich says, for example, that in many ways the budget deficits are also a barrier to reforms conservatives favour because it makes it difficult to finance schemes such as voucher systems aimed at increasing parental choice in educating their children.

One question looming now is will the deficits finally force the Government in Washington to begin to restructure generous middle class economic and social programmes, so that means and needs are more fairly balanced?

Another is the extent to which fiscal pressure and an easing of tensions with Moscow will increase the pressures to continue the reversal of the goal Mr Reagan put at the top of his political priorities – the extravagant $2 trillion (million million) build-up in the military budget.

The political stalemate over how to tackle the deficits also means that the flexibility of government to respond to new needs, to re-order its priorities and reallocate resources, has also been seriously impaired.

There is widespread agreement about what those priorities ought to be. The military dimension of national security needs to be de-emphasised and more attention paid to improving the nation's economic performance, the foundation on which national security is built, particularly in a world of rapid technological change driven, in large measure, by the private, not the military sector.

A nation facing an increasing demand for highly skilled labour and, partly for demographic reasons, a growing difficulty in meeting this demand, needs to invest in its workforce and its children, to improve their health and their literacy. That will require not just efforts to improve the quality of education, which Mr Bush says he is dedicated to, but a more vigorous attack on poverty, not least because one in four children is born into a family below the poverty line.

It will also require action to address the inadequate provision of basic health care, which today means that just under a fifth of the labour force has no health insurance even though the US spends far more, as a percentage of gross national product, on the provision of medical services to those who can afford it than any other advanced industrial country.

As Mr William Hyland, editor of Foreign Affairs, writes in the latest edition of Foreign Policy magazine: "Most policymakers now argue that it is high time the United States looked more to its internal problems and shifted the burden of external security on to others."

It has been Mr Reagan's blindness to many of the nation's interrelated domestic economic and social problems, including worrying evidence of a deterioration in race relations, which may well turn out to be the most damaging part of his legacy. It disturbs both right-wing conservative Republicans, such as Mr Weyrich, as well as left-wing Democrats like the Reverend Jesse Jackson.

Apart from the moves to reduce the tax burden of the poor in the tax reform legislation passed in 1987 – and credit for this initiative must be shared by the innovators on Capitol Hill such as Senators Bill Bradley and Representatives Jack Kemp and Richard Gephardt – Mr Reagan's record on poverty, and civil rights, seems destined for early repudiation.

As he leaves the stage which he has trodden with such panache, Mr Reagan remains an enigma. He is, for example, the cold war warrior whose intuitive judgment about the character of a new Soviet leader, Mikhail Gorbachev, has enabled him to embrace the head of the "evil empire". He argues that the West should help the process of reform in the Soviet Union and look forward to the possibility that the two nations might one day work together in friendship.

It is a journey which is characteristic of a man who can one day declare, as he did as Governor of California, that his feet were set in concrete in opposition to a proposal and then, a few days later, blithely appear before the press to declare he had shifted his stance and "the concrete cracked".

Further articles will follow on the economy and on foreign and defence policy.

OBSERVER

A prize for Kidder, P

■ The Bank of England ought to come clean and behave more like the Bundesbank. It dresses its warnings in such English understatements and reservations that not everyone is quite sure what it means. If it had been more forthright in public, it might well have won Observer's competition for the most accurate forecast of the British balance of payments deficit in 1988 hands down.

Here, for example, is a submission from CL-Alexanders Laing & Cruickshank which relies heavily on the accumulated wisdom of the Old Lady. It quotes a former Governor, the now Lord O'Brien warning of the balance of payments effects of "a step on the accelerator to stimulate home demand at a time when the economy was beginning to expand on its own."

O'Brien went on to say: "Time and again the result was, after a little time lag, an overheating of the economy, the development of demand inflation and a balance of payments crisis. I hope that we shall not risk another similar episode." That was in October 1970.

In October 1986 Robin Leigh-Pemberton, the present Governor, warned: "Room does exist for some rise in living standards, but we should not forget past experience of too rapid a rise in consumption all too easily leading to growing trade deficits."

AL&C, however, strained the rules of the competition by sending its – all too accurate – premonitions about 1987 rather than 1988. So it wins a mention, not a prize.

Professor A P Thirlwall of the University of Kent wrote to say that he had lost the back of the envelope on which he calculated a £15bn turn around in the balance of the payments for the worse in early 1987. He was imprecise on the timing, but cites a letter he had published in The Times on February 14, 1987 as evidence of his prophecy of doom. The letter called for "more imaginative solutions to Britain's perennial dilemma," but did not say what they should be.

The prize goes to an outstanding contribution from Kidder, Peabody & Co. Its forecast was even better than that of the International Currency Review which sparked the competition and was quoted in last Monday's Observer column. The ICR suggested a current account deficit "running at perhaps £10bn-12bn per annum at the end of this year and still widening".

The ICR, however, had the advantage of having studied Chancellor Lawson's 1988 budget on March 15, which may have contributed to widening the deficit. Kidder, Peabody, in its EuroMarkets Prospects dated March 11, wrote: "The deficit for 1988 as a whole is likely to have increased to around £10bn or 2½ per cent of GDP."

There is perhaps some retrospective comfort for the Chancellor in the Kidder, Peabody analysis. It argued that the balance of payments problem began again with the appreciation of sterling and predicted the rise in interest rates needed to keep the currency strong. It added incidentally: "The policy of raising interest rates to support an over-valued currency is inevitably going to fail." Still, if the Chancellor had been able to keep the pound at around Dm3, as once he wanted, some things might have been different.

Thus the modest prize of a bottle of beautifully wrapped bottle of malt whisky goes to Chris Barclay of Kidder, Peabody. A similar prize will go to anyone in the Bank of England who can prove that someone inside the fortress did better than the teenage scribblers. And a much bigger prize remains for Nigel Lawson if he can show that we are not just going through a repetition of the Maudling dash for growth or the Barber boom. He may get it.

"This is our new boardroom coup range."

Lloyds miss

■ Another candidate for the balance of payments deficit prize discussed above was Lloyds Bank, though it all came about by accident. Its World Economic Outlook 1987-1991, published in April this year, contained a table of current account forecasts for the main OECD countries.

The UK figure for 1988 was put at a deficit of $9.5bn. The Today Programme on BBC Radio 4 was sufficiently excited to start commenting on it. In one of those oversights that can happen to anyone, it failed to notice that the denomination was in dollars not sterling. Lloyds Bank tried several times to point this out, but the BBC declined to broadcast a correction. Eventually the bank gave up as it realised that the misquoted figure was more right than its economists thought at the time.

Big trip

■ The Western Mail is carrying an advertisement for trips to this season's Scotland v Wales rugby international in Edinburgh. It appears under the category Holidays Abroad.

Funny farm

■ I listened to the omnibus edition of The Archers yesterday to find out what the good, and indeed the bad, people of Ambridge thought about the great egg question. And, do you know, there was not a single mention?

Everybody must be aware, of course, that the sessions are recorded several weeks in advance, but there must be some scope for writing in the odd topical reference and even for purveying some useful information. There cannot be another family in the land that did not discuss eggs some time in the last few days.

One can come only to one of two conclusions: either the Archers team is getting lazy, or the new BBC is afraid of anything too controversial.

There was another point. The Archers nowadays is full of sex and incipient violence. Not since the days of the young Nelson Gabriel has one heard such heavy grunting. A case surely for Lord Rees-Mogg extending his powers of television censorship to include radio. No use watching the satellites when it is all happening down on the farm.

Achtung!

■ Notice on an electricity installation by London's Cannon Street station: "Transformer door to be kept locked shut except when any person is within."

هكذا من الأصل

Peter Montagnon and William Dullforce on trade reform prospects after fractious talks in Montreal

A last chance for the Gatt

Such was the despair into which the Montreal trade talks had sunk in their closing stages last week that a last-minute decision to adjourn them until April next year was billed as a miraculous success.

It provided instant, if temporary, relief from an impasse which had threatened not only to stall the entire Uruguay Round of multilateral trade negotiations but also to spark intensification of the farm subsidies war between the US and the European Community.

Having themselves utterly failed to break the deadlock between the US and the EC over long-term farm trade reform, the ministers seized with delight on the opportunity to hand the burden on to Mr Arthur Dunkel, Director-General of the General Agreement on Tariffs and Trade.

All attention is now focused on the question of whether Mr Dunkel can succeed where ministers failed – in resolving the US-EC dispute.

Mr Dunkel will probably shuttle between Europe and Washington to talk to political leaders

Equally at stake are important agreements reached at Montreal on liberalising trade in services, strengthening the Gatt as an institution, and on opening industrial country markets for Third World tropical products. These have now been put on hold until April.

Mr Dunkel is to make a start today in Washington where he will meet incoming members of the Bush Administration.

Though bitter recriminations were levelled in Montreal at both the US and the EC as being jointly responsible for last week's stalemate, its immediate cause was the immovable attitude of Mr Richard Lyng, the hard-line US Agriculture Secretary.

Delegates who tried to probe Mr Lyng's thinking in Montreal last week could not fathom the underlying motivation behind his intransigent refusal to modify the US insistence that all countries agree to commit themselves to a long-term elimination of trade-distorting farm supports. At no stage did any real negotiation take place, they said.

Speculation on the US position ranged over Mr Lyng's personal devotion to the ideal of free farm trade, Reagan-Bush transition problems, domestic political constraints over farm policy and personality clashes.

President Reagan himself limited the US delegation's freedom of manoeuvre by publicly proclaiming before the talks that the US would not budge from its so-called zero-option stand.

Even if Mr Lyng had been inclined to overcome this hurdle, the US could then have immediately faced difficult domestic problems. Any agreement in Montreal would have had to include short-term reductions in farm support as well as long-term commitments.

The dilemma for Washington was that failure to agree might lead the Congress to write additional subsidies into the new Farm Bill which it will prepare next year. Agreement on short-term measures without an absolute commitment from the EC on long-term reform would have brought immediate protests from the US farm lobby.

The US delegation in Montreal may simply have wanted to avoid binding Mr Bush's hands before he takes office next month. But, as the meeting dispersed, the main speculation centred around a clash of personalities and the ideology of Mr Lyng himself.

There was little disguising the animosity between Mr Lyng and Mr Frans Andriessen, the EC farm commissioner. Mr Lyng is to depart the scene soon as Mr Bush's Administration takes over. Mr Andriessen is due to switch to the trade portfolio in Brussels. Insofar as mistrust between these two men was at the core of last week's stalemate, this reshuffle of personalities may make Mr Dunkel's task easier.

But it also depends on whom Mr Bush chooses to be his new Agriculture Secretary. Rumours swept the Montreal conference hall that it could still be Mr Clayton Yeutter, the outgoing US Trade Representative who showed more willingness to work for compromise in the closing stages of the meeting than Mr Lyng.

Mr Yeutter, the main instigator of the Uruguay Round, has a personal interest in its success. Before leaving Montreal, he stressed his belief that the meeting had achieved more than many expected.

Out of the 15 separate negotiating areas for the Uruguay Round, results, even if minor in some cases, were reached on 11. In particular, delegates agreed on a programme for negotiating liberalisation of trade in services, which for the first time found a formula for drawing in developing countries who have been resisting the incorporation of services like banking, insurance and telecommunications into Gatt.

The meeting also agreed on a tighter dispute settlement procedure for the Gatt and a new system of monitoring the trade policies of individual countries. Most agree this will significantly strengthen the Gatt's ability to play a more influential role in the world economy.

The decision to adjourn the meeting until April means that the progress made in Montreal can be conserved. Ministers decided to keep intact the agreements reached, while the new attempt to resolve the impasse over agriculture was under way.

A chance to turn failure into success: Gatt chief Arthur Dunkel

This decision came just in time. Thwarted in its hope of being able to obtain an agreement on farm reform which could boost its own ailing economy, Argentina had threatened to jettison the agreements before the ink was even dry.

Backed by five other Latin American countries, it promised – in a bitter slanging match with the US and EC – to deny the Gatt the consensus needed to give effect to these new agreements. Gatt has always operated on a consensus basis rather than majority voting.

The adjournment is also intended to give Mr Dunkel time to resolve the remaining differences in the three other areas which proved difficult in Montreal: intellectual property rights, textiles and safeguards (measures which countries are allowed to take to defend their industries against sudden surges in imports).

However, the risk for the Uruguay Round as a whole has now increased because April is generally seen as the last chance to maintain its credibility.

Mr Dunkel has not revealed how he plans to tackle agriculture. He will probably begin a shuttle between the capitals involved where he will talk directly to political leaders.

The word which stuck in the EC throat last week was "elimination" as applied to the long-term goal for action on farm supports. Even the last compromise proposal produced by the US, after careful juggling by Mr Yeutter with the single copy of Roget's Thesaurus available to the meeting, mentioned this word four times.

Paradoxically, both sides freely acknowledge the need for long-term farm reform. From this common starting point Mr Dunkel has to find a formula acceptable to the two main trading powers which firmly guarantees continuing long-term reform without putting the entire European common agricultural policy on the negotiating table.

The formula will also have to satisfy the independent producers in the 13-member Cairns Group, whose disparate membership covers Australia, Argentina, Thailand and Hungary, that the US and EC this time mean business. It also needs to offer some relief to the many developing countries, whose own farm development has been stifled by the subsidies paid in rich countries.

Finding such a formula will require movement on the part of the EC. It got off lightly in Montreal because the deadlock over long-term commitments to farm reform prevented debate in areas in which its own officials acknowledge it is vulnerable.

The question of market access was not raised. Had this happened, the EC system of "variable levies", to which France in particular is deeply attached, would have come under fire. Variable levies are charges imposed on imports to bring them into line with Europe's artificially high internal prices.

Access to EC markets is a key objective not only of the US but also of the Cairns group. Any solution which Mr Dunkel devises to the present impasse will almost certainly have to involve some concessions by the EC in sensitive areas such as this.

Here again personalities may be crucial. Just as Mr Dunkel will have to deal with the as yet unnamed new US Agriculture Secretary, he will also have to deal with Mr Andriessen in a new capacity.

The latter has been lobbying to retain the right as trade commissioner to negotiate agriculture in the Uruguay Round. Mr Willy de Clercq, whom he is due to succeed, never had an entirely free hand in this respect.

If Mr Andriessen wins on this point, he will be able to approach the farm issue in the context of the entire Uruguay Round. With this broader range of interests, the hope is that he may have a different perspective on the value of compromise, but he will still be constrained by the guidelines imposed on him by the EC's executive Council of Ministers.

Finally, the near disaster in the Montreal trade talks may have the salutary effect of concentrating minds in the three months ahead.

There was no disguising the sudden flush of anxiety that rose through the greenhouse-like structure of the Montreal conference centre last week, when ministers were confronted with the prospect of total failure.

Yet with Mr Bush now also preoccupied with Mr Mikhail Gorbachev's new disarmament initiative as well as the administrative arrangements for the installation and confirmation by Congress of his new team, a period of less than four months offers scant time to resolve such complex issues.

Mr Dunkel now has the chance to turn failure into success. That would redound not only on his personal stature in international economic affairs, but would also bring the Gatt into a limelight it has never before enjoyed.

But, as the saying goes, April is a fickle month.

LOMBARD

The disputed UK renaissance

By Samuel Brittan

HAS THERE been a British economic miracle since Mrs Thatcher came to office in May 1979? As the 10th anniversary of her accession looms, the controversy grows ever fiercer.

The non-partisan observer may be forgiven for being confused when the newly appointed economic adviser to the Confederation of British Industry (CBI), Professor Douglas McWilliams, claims that there has been a British industrial renaissance, while one of his most notable predecessors, Sir Donald MacDougall, devoted part of his Keynes lecture to the British Academy last Thursday to suggesting there had been no such thing.

Other contributors to the debate have ranged somewhere between the two positions. Examples are Professor Nick Crafts, of Warwick University, in a forthcoming paper for the Centre of Economic Policy Research, and Professors Layard and Nickell in a paper for the London School of Economics.

The sad state of British economic statistics (perhaps itself a Thatcher false economy) has created a tangle of uncertainty about the correct numbers to use. But certain points emerge on any reasonable estimate of their likely range.

For instance, the record of the British economy under Mrs Thatcher has been best on manufacturing productivity and worst on unemployment. Overall growth performance has been reasonable, although not spectacular, if you start from 1979 rather than at the trough of the 1981 recession as Ministers would prefer. The record on inflation, while a welcome relief from the double digit rates of the 1970s, is pretty indifferent by the standards of other Group of Seven countries.

This is a curious combination of success and failure, in view of the frequent assertions that the Government was indifferent to manufacturing but obsessed with inflation.

The issue between MacDougall and the growth optimists is not, thank goodness, just statistical. It concerns rather the appropriate historical comparisons. British experience after 1979 is clearly inferior to that achieved in many post-war UK cycles, for instance 1964-73, just before the oil price shock. The exception is manufacturing productivity, and even here the Thatcher lead is only slight.

Thus, if you take all the post-war years as a single period, there is nothing special to say about the Thatcher years except for the rise in unemployment. What requires to be explained on this view is the period of abnormally low growth between 1973 and 1979 in the Wilson-Callaghan period.

If, on the other hand, you think that 1973 was a threshold in economic history, then the picture is different. Since then growth and employment have performed much worse in most parts of the industrial world, but especially Europe. The sense that the postwar Golden Age was over was one factor behind the Western economic summits inaugurated by President Giscard d'Estaing; and the Organisation for Economic Co-operation and Development (OECD) marked the new mood with an inconclusive report by a "Group of Wise Men".

It is on a post-1973 basis that there is some sign of a Thatcher renaissance. In the six years up to 1979, UK productivity growth averaged only half a per cent a year for the whole non-North Sea economy, while since then it has been at least 2 per cent, and perhaps higher. The overall UK growth rate has also shot up substantially, while in continental Europe it has slightly declined. The opportunity for the British productivity spurt was provided by the gap which had developed between British and overseas performance.

The first impetus towards closing that gap came from the Thatcher Government's so-called initial "mistake" in subjecting industry to an overvalued pound in 1980-81. The improvement subsequently continued because of the weakening of union influence, while measures such as the abolition of exchange control and the removal of capital subsidies kept business managers on their toes. The test will be to see if the new atmosphere continues in a tighter labour market where unemployment is a diminished threat.

LETTERS

Differentials could apply to money

From Mr David Sussman.

Sir, Successive UK Chancellors of the Exchequer have seen fit to introduce differentials by way of taxation in general, and by the use of special benefits to help poorer members of the community.

There are also a number of other wide ranging measures which differentiate in benefit or penalties between different economic activities.

It is surely anomalous, therefore, that this principle is not applied to the cost of money.

Our economic situation now requires the maintenance of a good level of investment by industry, and a high level of personal savings, both to maintain our manufacturing base and to reduce the high level of imports of consumer goods.

It is well known that one of the key factors in post-war Japanese economic success has been relatively low rates of interest offered to industry by the financial sector in the provision of medium and long term finance, compared with rates that have to be paid from time to time by other borrowers.

On average, industry has paid less than half the cost of money as compared to individual borrowers.

The answer to our current problems is to offer manufacturing industry – within an agreed framework – finance at a measurably lower rate than that which is offered for, say, speculative ventures such as property development, or to the individual consumer who borrows through his or her bank.

In effect, this would maintain the squeeze on the consumer, but release finance to our manufacturing industry.

David Sussman,
Albany House,
12 Albany Road, E10

EC dumping policy

From Mr S P Chalfen.

Sir, The issues behind the imposition of anti-dumping duties against some Japanese exporters to the EC is not between those who favour liberal trade policy on the one hand and protectionists on the other (Letters, November 25). *The issue is one of fair trade* and trade relations within the framework of the Gatt (General Agreement on Tariffs and Trade).

Not all Japanese companies involved in these cases have been found to be dumping and of those that have, not all equally so.

The European Court of Justice has considered the validity of the EC regulations and of the methodology adopted within that. They have supported both.

That would suggest that the actions of the Commission in this area do indeed have "demonstrable validity".

Japan has opted to utilise the mechanism provided in the Gatt to challenge the validity of EC measures. The EC is not complaining of that approach.

S.P. Chalfen,
1 Firecrest Drive, NW3.

Below cost for some years

From Mr J.A. Dole.

Sir, I was interested to see Mr G.C. Ranald's letter (December 6) about the price of his subscription to the OECD (Organisation of Economic Co-operation and Development) publication, Main Economic Indicators. I am afraid that in suggesting that the Chancellor should keep his own house in order, Mr Ranald's fire is somewhat misdirected.

HMSO is only the UK Sales Agent for OECD publications and had no say in determining the new subscription rates. It is understood, however, that Main Economic Indicators has been priced below cost for some years, and that the OECD decided that the subscription, unchanged since 1985, should be increased to a more economic rate.

Beyond confirming that the notified price was indeed correct, HMSO had no alternative but to pass on the new rate to subscribers, although – with hindsight – it would have been more helpful if we had offered an explanation with the renewal notices.

John Dole,
Controller and Chief Executive,
Her Majesty's Stationery Office,
Duke Street,
Norwich, Norfolk.

The British Steel deal and the public interest

From Mr R.A. Bryer.

Sir, The fact that British Steel's shares did not move to a large premium on the first day's trading has led to the predictable response. As Lex put it (December 6): "From the viewpoint of the British taxpayer, British Steel's début must be regarded as the best possible outcome . . ." – a gross simplification of whether the public got a fair deal.

Since nationalisation in 1967 the public has invested £17bn in British Steel (in current prices). After losses and asset write-offs it has been left with net assets with a current value of around £5.5bn (including the £1.4bn of fixed assets which it has written-off in the books but is still using). The Government has made no attempt to justify £2.5bn as a fair price from the public's point of view.

If it did, it might be along the following lines:

British Steel is a risky investment. Judging by the total returns required for similar risks, investors can conservatively be estimated to want about 20 per cent a year before tax. (This assumes a riskless return of 10 per cent; that British Steel is only slightly riskier than the stock market as a whole; and that the long-run expected excess return on the stock market as a whole is 9 per cent – the average since 1917.)

In its prospectus, British Steel promises to pay gross dividends of £200m for its first financial year. Although the gross dividend yield of 8 per cent which this implies is nearly double that currently offered on the London stock market as a whole, the remainder of the required return (12 per cent a year) will have to come from growth.

While British Steel currently has high profits, it is also running at peak demand. Its profits are very sensitive to output levels, and some analysts believe that in its current form its sustainable trading profits may be as low as £260m a year (FT, June 7), a figure which can be supported by applying the average trading profit margin for the German steel industry in 1988 of 6.34 per cent to sustainable sales of British Steel of (say) £4bn.

British Steel has also promised to invest about £300m a year. So even to continue paying £200m dividends, to keep its promise on investment it will need trading profits of some £340m a year (£340m plus depreciation £160m, less investment of £300m equals £200m distributable surplus).

Thus, to earn its required return, British Steel will have to work hard to expand sales and improve efficiency. £2.5bn is therefore at least a fair price, and may be too high.

This analysis may persuade investors that they paid a fair price. It should not persuade the public that it received a fair price, for three reasons:

British Steel need not keep its promise to invest £300m a year. While it could continue to invest and grow to fructify an investment of £2.5bn at 20 per cent a year, it could also satisfy investors by paying them an average annuity of £500m a year for 20 years, and then closing the business. This prospect is, perhaps, too awful to contemplate, but British Steel could make a sizeable step towards it by cutting back on investment.

British Steel believes that the closure of Ravenscraig would increase its distributable profits by £100m a year. As this alone would contribute 4 per cent to the required returns on the £2.5bn investment, British Steel and its investors will presumably find Ravenscraig's closure irresistible. But the public may legitimately want Ravenscraig to stay open.

It might be tempting to argue that whatever happens to British Steel's assets, the public will have £2.5bn in cash to invest to earn an equivalent return. But even if such investments were available to the public, there is little prospect of it being invited to make one.

R.A. Bryer,
School of Industrial & Business Studies,
University of Warwick

FINANCIAL TIMES
Monday December 12 1988

Janet Bush on Wall Street

Pro-junk stand across the divide

FOR EVERY argument that the explosion of high-yield financing has helped corporate America become more productive, more efficient and create jobs, there is a dire warning about the dangers of junk bonds. On both sides of the junk bond and leveraged buy-out debate, there are those who have an absolute conviction that they are right.

A conference held in New York last week – sponsored (it should be noted) by nine financial companies including Drexel Burnham Lambert, Salomon Brothers and Merrill Lynch – brought together leading academics in the field, economists from goverment agencies and interested parties from Congress.

The terms of the debate have clearly shifted since the leveraged buy-out of RJR Nabisco. The pro-junk camp presses its arguments even more vigorously because it is aware of the increasing consternation in Congress about LBOs.

Mr Frederick Joseph, chief executive of Drexel Burnham Lambert, described the RJR Nabisco buy-out as a terrific deal but said: "I would not be happy doing a bigger one . . . That deal represented just about 100 per cent of capacity in terms of financing." Yes, there are limits.

The second comment gives a flavour of the political rhetoric surrounding junk bonds and came from Congressman Edward Markey, chairman of the House Telecommunications and finance sub-committee. "Financial firms are taking around $1bn out of the RJR deal in fees for a few weeks' work – that is more than the US spends in a year to fight the AIDS epidemic."

There is a substantial body of academic research which suggests that companies which leveraged themselves using high yield have had spectacular success.

Mr Glenn Yago of the State University of New York at Stony Brook is probably fairly representative of the pro-junk camp. He argues that the political storm over junk bonds has been whipped up by large corporations who have seen smaller companies financed by high yield debt start to compete more effectively.

"We have seen that high-yield securities grew at the expense of bank debt and that high yield companies grew at the expense of the hegemony of many established firms," said Mr Yago.

His study of high-yield issues from 1980 to 1986 (things may look different in 1987-88 when leveraged buy-outs have become so popular) shows that 74.7 per cent of the proceeds were earmarked for corporate growth, 21.9 per cent were used for acquisition financing and 3.25 per cent were used in unsolicited takeovers.

The core of Mr Yago's thesis is that companies which made significant high-yield borrowings have done better than those which have not.

During the period of the study, the average annual increase in employment in high-yield companies was 6.68 per cent compared with only 1.33 per cent for industry as a whole. Sales grew at 9.38 per cent compared with 6.42 per cent and annual growth in capital spending by high yield companies totalled 10.61 per cent compared with 3.83 per cent in other companies.

Moreover, the level of debt is not dangerous, Mr Yago argues. He asserts that the ability to service debt has remained stable although the absolute levels of debt have risen and that US companies are underleveraged compared with foreign competitors.

Mr Seth Klarman of the Baupost Group believes this mantra of economic benefits of high-yield borrowing does not prove very much because companies which borrow, whether through debt or equity, tend to use those funds to grow.

There have been resounding junk-financed successes such as Triangle Industries and McCaw Cellular. There are also "junk bond dogs" such as Revco Drug Stores which has used virtually all its cash flow to service its debt.

There are some unanswered questions. What will happen to default rates if there is a genuine recession? Can it really be argued that a leveraged buy-out is acceptable if corporate bond investors see a 40 per cent loss in the value of their holdings but shareholders gain a premium of 60 per cent on their stock?

Mr Klarman argues that "junk bonds remain untested through an economic cycle. Until they are, issuers and investors are gambling on economic good times and continuing asset value increases."

EC imposes big cuts on fishing quotas

By Tim Dickson in Brussels

NORTH SEA fishermen face a bleak new year after yesterday's agreement by European Community fisheries ministers to impose sharp cuts in the total catch which will be allowed for certain key species over the next 12 months in an effort to conserve stocks.

Ministers reluctantly approved a European Commission proposal that the Total Allowable Catch (Tac) for cod in the North Sea be cut by 20 per cent next year to 118,700 tonnes, and the Tac for haddock be reduced by 60 per cent to 62,500 tonnes.

The harsh deal – *approved* by a "qualified majority" of member states after two days of fierce negotiation in Brussels – nevertheless averts the most serious crisis in EC fisheries policy since the current common regime was established in 1983.

The problems facing the industry came to the surface earlier this year when new scientific research provided the clearest evidence to date that there are too many boats in Community waters chasing too few fish, and that consequent over-fishing is depleting important stocks.

Much of the argument over the weekend centred on how much of the haddock Tac should be allocated to the UK under the system of national quotas.

By applying the normal "key" which is used to divide up the Tacs for each country Britain would have been given a share of around 48,000 *tonnes, but Mr John MacGregor*, the Fisheries Minister, argued that under a special arrangement for hard hit regions, known as the Hague compromise, the minimum entitlement for the UK ought to be 60,000 tonnes.

In the end a figure of 54,380 tonnes was agreed.

Another lengthy dispute arose over the issue of migrating mackerel in and around a sensitive fisheries zone to the north of Scotland.

In an important break with past practice the Council agreed that British and Irish boats should be allowed to pursue a fixed quantity of fish (35,790 tonnes in the case of the UK) beyond the so called "4 degree" line during the last three months of 1989.

Yesterday's agreement was a notable triumph for Mr Antonio Cardoso e Cunha, the Portuguese Fisheries Commissioner, who resisted considerable pressure, notably from the French, for Tac increases beyond the original Commission proposals.

The final package, however, was opposed for different reasons by Ireland, Denmark and Spain (the latter in part because it is unhappy with the Community's share of a key cod Tac in the zone near Norway known as Svalbard).

However, some hope to the beleaguered fishing industry was provided by a commitment from ministers to review the scientific advice for certain key stocks in the middle of next year and, if appropriate, to raise the relevant Tacs at the Fisheries Council meeting in June.

The impact of the haddock and cod catch cuts will be borne largely by Scottish fishermen.

Mr Bob Allan, chief executive of the Scottish Fisherman's Federation, estimated yesterday that the catch cuts would reduce his members' income by between £30m and £40m ($55m - $74m) in 1989.

Mr Allan called for a post mortem into the suddenness of the Tac reductions.

"You can't run an industry on this basis," he said and hinted that his organisation may appeal to the UK Government for emergency financial support.

EC securities plan, Page 2

Brazil's crippling Aids burden

Treatment costs the same as in rich countries, reports John Barham

EMILIO RIBAS is an Aids hospital in the Brazilian city of São Paulo, but the visitor could be forgiven for mistaking it for a prison. Officious armed security guards only allow in visitors with a special permit. The wards, like cells, are locked.

Visits are allowed three times a week, for an hour at a time. Bored social workers forbid visitors who arrive a few minutes early to approach the ward doors before the appointed time.

A shocked father stares through the small glass window at his baby girl, poisoned by an infected blood transfusion. Today, Saturday, nobody will be allowed into the wards, because no face masks or gowns are available. Cowed relatives take turns to gape through the windows.

From inside one ward, an inconsolable inmate wails "If I'm going to die, I want to die at home." And then, inexplicably, screams for the biscuits her *cousin had forgotten* to bring.

Aids first appeared in 1980 and now there are close to 5,000 diagnosed cases, the world's third highest incidence. Government projections suggest that there will be 38,000 cases by 1990.

Brazil, in spite of its $380bn gross domestic product, has one of the least healthy societies in the world. Public health has never received a high political priority. Tropical diseases like yellow fever, leprosy, Chagas' disease and malaria are actually spreading.

Mr Paulo Cesar Bonfim, the head of a private Aids prevention group, said: "Aids has made it clear that Brazil's health policies are bankrupt."

The Health Ministry's budget for next year is $2.3bn. Aids, incurable and expensive to treat, is yet another burden. The ministry will not say how much it plans to spend on the victims.

Treating Aids in Brazil is no cheaper than in richer countries. The state of São Paulo, the wealthiest in South America, has two-thirds of Brazil's cases of Aids. It will spend $411m on health in 1989, about 12 per cent of the entire state budget.

Still, staff at the Emilio Ribas complain of broken equipment, weak and indifferent leadership, low pay, high staff turnover and peddling of political influence. Patients are turned away for lack of space, although the hospital is being extended.

The cost of dealing with the disease can only escalate. Imported drugs such as AZT or interferon are rarely available in Brazil's public hospitals, where no more than 20 per cent of patients live for more than a year after their first *symptoms appear. Survival* rates at private hospitals, which charge $185 a day, are similar to rates in the developed world.

To its credit, São Paulo is improving the quality of its blood supplies. It has set up a widely-praised out-patient unit, although it lacks essential equipment.

In the state of Rio de Janeiro, health authorities have stopped screening blood for lack of money. The state has at least 10 per cent of Brazil's Aids cases.

If the impact of Aids today is worrying, then the outlook for the future is terrifying. Health officials say that 500,000 people, or 0.4 per cent of the population, already have the Aids virus. Although the rate of advance has slowed, new cases of Aids are still doubling every eight months.

Doctors emphasise the vital importance of educating the population about Aids. The Government does its bit with posters and the slick TV commercials it airs occasionally. It sponsors conferences for health workers.

But many doctors consider the public information campaigns inadequate. Although Brazilians are not sexually inhibited, they are oddly reticent about discussing sex openly.

Dr Caio Rosenthal, an infection specialist working at Emilio Ribas, said: "What's the use of having Aids campaigns if they don't explain anything? What do poor, ignorant people in slums understand by phrases like 'sexual relations' or 'multiple partners'? They haven't a clue." He wants campaigns to use direct language and forceful images.

Brazilians are sentimental and it was the death of a national figure that galvanised public awareness. The demise of Mr Henrique de Souza Filho, a popular cartoonist who suffered from haemophilia, precipitated an outpouring of grief and demand for action on Aids. It was no longer seen as a minority disease afflicting rich homosexuals.

Drug abuse is emerging, as it has in Europe and the US, as a big factor in transmission. In the prosperous farming regions of São Paolo, half the cases of Aids are caused by shared needles

Drug abuse is now emerging, as it has in Europe and the US, as a big factor in transmission. At São Paulo's grim Febem child welfare foundation, a state orphanage and borstal, 700 of its 8,600 charges have Aids. Very few of them will ever be allowed out. One in 10 of the children Febem brings off the streets already has Aids, often as a result of injecting cocaine bought with the proceeds of theft. The foundation says São Paulo has 3,000 street children.

Drug abuse is also common among the wealthy.

The Government has yet to direct a specific campaign at drug users. The idea of providing them with free syringes is not accepted. Nonetheless, Febem does give youngsters free condoms.

Prostitutes are not great consumers of intravenous drugs but are still an important factor in Aids transmission, if only because of a penchant for transvestism. Too often, clients still do not believe that Aids is a serious risk.

British industry confident of output rise

By Simon Holberton, Economics Staff, in London

BRITISH INDUSTRY remains confident about increasing its *output over the coming* months, but in spite of a poor export performance it plans to increase prices, according to the latest monthly survey ofthe Confederation of British Industry, the employers' body.

The survey appears ahead of a week dominated by economic indicators for the UK and the US and against a background of nervousness in international markets. There is anxiety about the prospect for higher interest rates in West Germany and possibly the US which, if realised, may force the UK authorities to increase rates.

The CBI monthly trends inquiry of 1,104 manufacturing companies was conducted between November 25 and December 7, just after interest rates were raised to 13 per cent and the release of the October trade figures showed a current account trade deficit of £2.4bn ($4.3bn).

The survey indicates that domestic demand in the UK has remained relatively buoyant, despite the rise in interest rates. It adds weight to the view that industry may be diverting production to fulfil a continuingly robust level of domestic demand which is also allowing it to raise prices.

The report shows that industry's export order books continued *to deteriorate in December*.

Mr David Wigglesworth, chairman of the CBI's economic situation committee, attributed the subdued outlook for export orders to the current strength of sterling and the high level of interest rates. He said the CBI had given a warning repeatedly that the prospects for reducing the trade deficit would not improve if sterling remained "uncompetitively strong".

The CBI survey showed that industry is planning to raise factory gate prices. These usually rise around the turn of the year, especially in January, but *CBI monthly surveys* show upward pressure accelerated in October and has continued.

Mr Wigglesworth said productivity improvements in manufacturing were keeping unit labour costs under control.

The key monetary policy committee of the US Federal Reserve Board, meets early this week. UK officials said that if the US and West Germany raised interest rates and this led to a significant weakening of sterling then the Government would have to respond with higher UK rates.

Confusion over future of Morgan stake

Continued from Page 1

has farmed out its small, loss-making Lloyd's reinsurance broking subsidiary, Dewey Warren & Co, to be managed by D.G. Durham, an insurance broker, leaving £50m cash and its Morgan Grenfell holding as virtually its sole assets.

The most sensitive element of the situation surrounds the stakes in Morgan Grenfell, not least because of the presence of several large shareholders on Morgan's share register. Willis Faber, which has had ties to Morgan since the 1960s, has 20.7 per cent, while Deutsche Bank has 4.9 per cent.

Bond Corporation claimed yesterday that during talks with Robert Fraser it had reached an agreement that its 3.2 per cent and Dewey Warren's 5.6 per cent would be sold as a package to one party.

Some observers believe that this agreement only took the form of a verbal understanding between Bond executives and some Dewey directors.

Mr John Craven, chief executive of Morgan Grenfell, said that in discussions with Mr Colin Emson, Robert Fraser's chief executive, there was no mention of such an agreement.

Mr Craven said that he had been assured the shares would not be placed with one party. "Mr Emson said: 'What I will not do is to be party to dealing the shares

Mr Craven added that some of Dewey Warren's Morgan Grenfell shares might be sold to a Japanese insurance company

WORLD WEATHER

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	S	13	55	Dubrovnik	S	12	54	Malta	R	11	52	Rhodes	F	18	64
Algiers	C	13	55	Edinburgh	C	11	52	Manchester	C	11	52	Rio de J'o	C	32	90
Amsterdam	C	10	50	Faro	S	16	61	Manila	F	31	88	Rome	F	14	57
Athens	C	09	48	Florence	S	11	52	Melbourne	C	20	68	Salzburg	R	01	34
Bahrain	C	14	75	Frankfurt	C	07	45	Mexico City	F	22	72	San Francisco	F	20	67
Bangkok	F	29	84	Funchal	F	21	70	Miami	C	25	78	Seoul	R	04	40
Barcelona	S	11	52	Geneva	C	04	39	Milan	S	06	43	Singapore	C	30	86
Beirut	F	19	66	Gibraltar	S	15	59	Montreal	Sn	-21	-6	Stockholm	F	00	32
Belfast	C	11	52	Glasgow	R	11	52	Moscow	C	-1	30	Strasbourg	D	03	37
Belgrade	C	02	28	Guernsey	R	11	52	Munich	C	01	34	Sydney	C	22	72
Berlin	S	05	41	Helsinki	C	0	32	Nairobi	C	23	73	Taipei	F	23	73
Biarritz	C	09	48	H. Kong	C	11	66	Naples	S	09	48	Tangier	S	16	61
Bombay	S	30	86	Innsbruck	Sn	01	34	Nassau	F	28	82	Tel Aviv	F	20	68
Bordeaux	C	11	52	Inverness	R	05	41	New Delhi	F	25	77	Tenerife	S	24	75
Brussels	C	08	46	Islamabad	F	23	73	New York	F	02	36	Tokyo	F	13	55
Budapest	R	05	41	Istanbul	R	08	46	Nice	S	11	52	Toronto	F	-03	27
B. Aires	F	29	85	Jakarta	F	32	90	Nicosia	F	19	66	Tunis	C	10	50
Cairo	F	19	66	Jersey	D	11	52	Oporto	S	12	54	Valencia	S	12	54
Cape Town	F	19	66	Jo'burg	F	26	79	Oslo	C	02	28	Venice	F	02	36
Caracas	F	23	73	Lima	F	25	77	Paris	D	09	48	Vienna	R	04	39
Casablanca	S	16	61	Lisbon	F	13	55	Peking	S	07	45	Warsaw	C	02	36
Chicago	C	-7	20	London	C	12	54	Prague	F	04	39	Washington	F	-2	27
Cologne	F	08	46	Los Angeles	F	23	73	Reykjavik	F	03	37	Zurich	Sn	01	34
Copenhagen	F	07	45	Luxembourg	C	07	45								
Corfu	C	12	54	Madrid	F	13	55								
Dallas	D	04	39	Majorca	F	14	57								
Dublin	F	12	54	Malaga	S	14	57								

Readings at mid-day yesterday
C-Cloudy D-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

Rouble devaluation plan

Continued from Page 1

eign Economic Relations Bank) will presumably allow enterprises to bid for extra foreign exchange by paying a higher rouble price.

The concessions could also mean a boost in Soviet consumer goods imports because enterprises will be allowed to use 10 per cent of their hard currency earnings for such imports - and the full amount of any funds in Comecon currencies. Soviet economists have been arguing that Mr Mikhail Gorbachev, the Soviet leader, must put more consumer goods in the shops to win more popular support for his economic reforms.

The joint venture concessions go some way to answering major complaints of potential foreign partners. Import tariffs on goods and equipment for such joint operations will be reduced or scrapped.

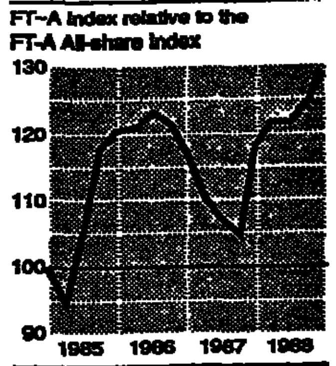
The new rules also promise a delay in imposing taxes on repatriated profits, although do not provide any better guarantee that such profits can be repatriated unless the joint venture itself earns the hard currency from exports.

THE LEX COLUMN

A clouded glass for the brewers

The present round of results presentations from the big UK brewers may turn out to be the last bulletins from a vanishing world. The ruling of the Monopolies and Mergers Commission (MMC) on the tied house system, due in February, cannot be foreseen with confidence; indeed, the brewing industry suspects that with two years behind it and two months to go, the Commission is still baffled by the complexity of the issues. But there is an unmistakeable whiff of change in the air, and the big brewers, for all their public protestations, must be hoping that the MMC will provide the means to get the process under way.

Brewers and distillers
FT-A Index relative to the FT-A All-share Index



Faced with the threat of having to do away with vertical integration, the big brewers have noticed two things. First is the promise of increased market share. In country districts particularly, there are still any number of small local brewers, providing not the lager which customers increasingly want, but their own ale – sometimes nice, sometimes nasty. The tied system allows them to shut out competing beers from their pubs, and the system of restricted licences ensures that the competition cannot open up next door. Change the rules, and – as with Big Bang on the Stock Exchange – the big are free to prey on the small.

Pubs come first

The other factor is the belated realisation that vertical integration has encouraged the industry to see itself the wrong way round – as a group of manufacturers, rather than of retailers. Beer consumption is absolutely flat, and all the growth is in the wider pub trade. As retailers, the brewers operate on the grandest possible scale; Bass, the biggest, has almost 7,500 pubs, and the big five have more than 5,000 each. All have made some move to split off the two sources of income – some formally, such as Courage and Grand Met – and most aim at a further division between retail and property income. It may be a little dispiriting to see the brewers latching on to all this just as the property market is peaking and the High Street is in disarray, but the basic instinct is sound: the industry's problem is not too many pubs, but too much beer brewed by too many people.

It can be deduced from all this which way most of the big brewers intend to go. Allied has stated that if it must choose between brewing and retailing, it will take the latter. Whitbread is increasingly promoting itself as a retailer in any case, particularly through its restaurant chains, while GrandMet, lacking strong beer brands, claims to be the best retailer in the industry. All this clearly leaves an opportunity for someone; in the US, where tied estates are specifically outlawed, Anheuser Busch has nearly 45 per cent of the brewing market. The obvious candidates as purveyors of bulk beer to the nation are Elders – proud owner of Fosters, and sworn enemy of the tie – and the specialist supplier to the free trade, Scottish & Newcastle. Indeed, it is in this context that Elders' desire to take over S & N is most intelligible.

The Bass dilemma

The enigma in all this is Bass – the one brewer to have made real sense of vertical integration, and owner not only of the most pubs, but of the best beer brands. On the face of it, this might seem to put Bass more at risk from the MMC than the others. But as the company makes clear, if it were forced to divide the two functions, it would continue in both. In stock market terms, it is not impossible to envisage two separate companies – the dull but dependable Bass Brewing and Wholesaling, say, and the glamorous and highly-rated Bass Leisure and Retailing. Investors would have further choice in the fact that the former would be hugely cash-generative, the latter cash-hungry. But although much of the industry is clearly itching to get on with it, it does not follow that it will initiate its own Big Bang irrespective of the pace of change imposed by the MMC. For a start, the small brewers will obviously not relinquish the tie until they are forced to; and for the big brewers, splitting themselves up will not be so attractive as long as the tie persists in any form.

There is no point in selling your breweries to Anheuser if they carry with them access to only 50 per cent of the market; better to wait for 100 per cent and a higher price.

The MMC options

All the while, it remains quite unclear what steps the MMC will actually take. Ever since the Elders bid for S & N was referred, it has been possible to speculate with some confidence that the competition authorities are determined not to leave the tie undisturbed. But they face an unenviable task. It is all very well to say, as the authorities do, that if the entire country drinks one lager as a matter of choice, that is in competitive terms preferable to the present system. But there is no getting round the fact that choice is preserved by the tie – even if, paradoxically, the choice is enforced.

Various half-way stages can be envisaged. Producers of beer, for instance, could be required to limit themselves to 1,000 pubs apiece, thereby protecting the small brewers and leaving the field open to newly arrived pub owners such as Mr George Walker. Among the less satisfactory notions is that of compelling pubs to provide a guest beer not of their own making – although if that were introduced, the smart money should be invested in whoever makes the most horrible beer around.

But then, there will be opportunities for the investment community whatever form the changes take. At the root of the brewers' dissatisfaction with the present system is the realisation that it involves the inefficient use of assets. Liberating these assets should not only improve the industry's performance overall, but give investors the chance to cash in their holdings.

Of course, since the tie allows inefficient brewing assets to remain in existence – and not only among the small brewers – there will be losers as well. Brewers will also have to face up to the fact that shorn of beer brands, their vast retail empires will have almost no branded identity at all. But that, like so much else in the brewing industry, ought to have been faced up to a long while ago.

هكذا من الأصل

SECTION III
FINANCIAL TIMES
SURVEY

Pragmatic economic policies and political stability have contributed to Kenya's impressive achievements. But rapid population growth, unemployment, poor policy implementation and corruption present the government with major challenges, reports Tony Hawkins

Workers at a coffee plantation at Thika east of Nairobi and (right) President Daniel arap Moi

KENYA

CONTENTS

Role model for Africa

KENYANS ARE celebrating the 25th anniversary of their independence confidently aware that their track record of political stability and economic development has made them the envy of sub-Saharan Africa.

The record of political stability and continuity under two presidents, Jomo Kenyatta and Daniel arap Moi, was marred briefly by the abortive 1982 coup, since when Kenya has attracted increasing criticism over its human rights policies, the gradual erosion of democratic institutions and the spread of corruption.

The credit side of the ledger is 25 years of solid economic expansion during which time real growth in Gross Domestic Product remained ahead of the world's fastest growing population — in itself no mean achievement.

Real per capita incomes today are some 10 per cent above their 1963 levels but this is not a realistic measure of economic development because it masks a more equitable pattern of income distribution, especially between rural and urban areas, and fails to capture improvements in the quality of life, particularly evident in the rural economy.

A striking yardstick of development, too, is the 150 per cent increase in the number of people employed in the formal economy — up to 1.27m from 540,000 at independence. At the same time, the 730,000 new wage-sector jobs created in the past 25 years underline the enormity of the challenge of the 1990s.

Although Kenya's population growth rate is forecast to fall from 3.7 per cent annually at present to 2.5 per cent by 2000, the labour force will have virtually doubled from 7.5m in 1984 to 14m. If unemployment, estimated in 1984 at 13 per cent of the workforce, is to be contained, an additional 6m jobs will have to created by 2000.

The modern wage sector's rate of job generation must treble from 30,000 a year to almost 90,000. In addition, small-scale (non-wage) agriculture will have to find work for some 3m people, while the non-farm informal sector, rural and urban, will have to double in size generating 1.5m jobs.

Even the optimists doubt whether such targets are achievable.

Kenyan economic growth has slowed progressively from an extremely impressive 6.6 per cent in the first decade after independence to 4.7 per cent in the 1970s, following the two oil price crises, and to 4.2 per cent in 1980.

The post-1981 slowdown reflects the stabilisation policies introduced after the balance of payments deficit had reached 12.5 per cent of GDP; an inflation rate of 20 per cent; world recession; the attempted 1982 coup which undermined investment confidence; and the severe 1984 drought.

The Kenyan authorities responded to these difficulties in two main ways : first with a classic IMF-type stabilisation programme, including currency devaluation and tight fiscal and monetary measures; the second — and more far-reaching response — was the publication in 1986 of the economic policy paper entitled Economic Management for Renewed Growth which sets out the Sixth Development Plan due to be launched this month.

The Sessional Paper, as it is known, encompasses a broad range of policies which have won the enthusiastic support of the donor community, as evidenced by aid pledges totalling $1.1bn for 1989-90, compared with a previous average of some $600m a year.

Needless to say, such largesse has its price — the political cost of structural adjustment. But because Kenya's economic policies have always been essentially non-ideological it retains a degree of flexibility enabling it to implement reforms without any major policy U-turn.

Instead, there is a substantial element of continuity with the main differences being in emphasis rather than principle. Kenya is strongly committed to a mixed economy, the privatisation of parastatals and to giving the private sector a predominant role in income and job generation.

The development strategy emphasises rural development with agriculture remaining the lead sector, although its targeted growth rate of 5 per cent annually is well below that of manufacturing (7.2 per cent).

Key policies include a better balance between rural and urban areas to prevent an explosive growth of the cities, a heavy emphasis on informal sector expansion and the restructuring of manufacturing industry in the direction of export-led growth.

This strategy is difficult to fault. Its focus on labour-intensive activities in agriculture and small-scale enterprise makes excellent sense given the population and resource-endowment profile. So, too, does the shift in emphasis from import substitution industrialisation to export-oriented growth.

The focus on capital market development and efficiency in the financial sector, and on a more market-driven economy via import liberalisation and the decontrol of pricing, is also realistic in the light of experience elsewhere. The willingness to tackle the fiscal deficit reflects both realism and political courage — often absent in sub-Saharan Africa.

But despite the positive policy framework, there is deep scepticism over Kenya's ability to meet the very taxing targets forced on it by its high population growth rate. Perhaps the most serious reservation concerns Kenya's administrative capacity for policy implementation.

Business people and bankers believe that the overall GDP growth target of 5.6 per cent a year is ambitious and unlikely to be attained in the absence of much more rigorous policy implementation than demonstrated so far.

In particular, they cite the slippage on 1987-88 budget deficit targets — accommodated by delaying payments into the current year — the government's sharp reaction when East African Industries raised its prices after items had been decontrolled, and the fact that although certain import categories were liberalised in mid-year, there has been no discernible improvement in the rate at which import licences are granted.

Above all, there is concern over the "lack of transparency" in the administrative system and the associated exploitation of "bureaucratic rents" — both euphemisms for petty or serious corruption because the bureaucrats have something to sell. The more market-driven and open the economy, the less such opportunities exist which explains opposition by some vested interests to the proposed reforms.

But it is unfair to judge the programme's prospects purely in the context of administrative capacity. All the signs suggest that the all important political will is there. Furthermore, delays in import licences — and indeed in dividend remittances — are more the result of foreign currency availability than backsliding on the policy front.

The programme's medium-term Achilles' heel — and one outside the control of the policymakers — is the balance of payments. Kenya is unhealthily dependent on four sources of foreign exchange — coffee, tea, tourism and aid. In 1987, exports and tourism totalled $1.23bn, of which coffee and tea accounted for $435m or 35 per cent while tourism's share was $324m or 26 per cent. Indeed, at current commodity price levels, tourism is the country's main source of foreign exchange earnings.

Unhappily, all three industries are fragile in terms of their vulnerability to volatile international market conditions. In the case of tourism, too, it will be difficult to maintain the rapid growth of recent years given the overcrowding now evident in some of the game parks.

In Nairobi there is more optimism about tea prospects than coffee though it is acknowledged that so great are international market imponderables that current forecasts could turn out to be very misleading.

Export diversification hopes are pinned on fruit and horticulture, including such manufactures as canned pineapples and vegetables, along with textiles and clothing. The proposed establishment of export processing zones — two areas have been identified — and of "manufacturing-in-bond" schemes could transform the export outlook, but such programmes take five to 10 years to yield results and it is questionable whether Kenya can wait that long, given its population problem.

The other obvious export option is the Preferential Trade Area which in 1987 purchased 20 per cent of Kenyan exports. There are two main obstacles here: strong competition from Zimbabwe and Mauritius and the growing resentment of PTA partners of both Kenya and Zimbabwe which are major regional exporters but minimal importers.

A key ingredient in export promotion continues to be exchange rate policy. Kenya has won high marks from the IMF and World Bank for its flexible exchange rate stance. It has devalued some 60 per cent against the US dollar since the early 1980s, while on a trade weighted basis the Kenyan shilling has declined more than 30 per cent since 1982.

The key policy variable is the real effective exchange rate — the exchange rate adjusted for inflation differentials with trade-partner countries — and this is 20 per cent lower today than in 1982, which promotes both competitiveness and profitability in export activities.

Foreign investment seems unlikely to make a major con-

Continued on following page

KEY FACTS

- Area: 582,646 sq km
- Population: 22.94m (1987)
- GDP: $7,734.5m (1987)
- GDP growth rate: 4.8% (1987)
- GDP breakdown by sector:
  Agriculture: 29.93%
  Manufacturing: 13.27%
  Government services: 15.6%
  Other services: 41.2%
- Inflation: 5.2% (1987)
- Currency:
  100 cents= 1 Kenya shilling (Ks)
  Ks20= 1 Kenya pound (K£)
- Exchange rate: $=Ks17.99 (Dec 1988)
- Exports: $915.8m (1987)
- Imports: $1,739m
- Trade balance: -$823.2m (1987)
- Current account: -$102m (1986)
- Debt: $4,504m (1986)
- Debt service ratio: 26.5% (1986)
- Total debt as % of GDP: 65.1% (1986)

Julian Ozanne on President's Moi's delicate balancing act

Political survivor braced for testing times ahead

WHEN PRESIDENT Daniel arap Moi stepped out of the shadow of the late President Jomo Kenyatta few observers knew what to expect.

Mr Moi had been a faithful deputy for 11 years but it was a post which carried little responsibility.

A schoolteacher by training but a politician since the late 1950s, Mr Moi had stayed loyally in the background. His accession to office in August 1978, although smooth, took place amid undercurrents of tension.

A group of senior politicians attempted to change the constitutional provision which assured the succession of Mr Moi, a member of a small minority tribe, the Kalenjin, and thus open up the possibility of another president from the Kikuyu, the country's largest ethnic group.

The new president, however, was to prove himself more adept and determined than many had anticipated. Adopting the slogan "Nyayo", meaning footsteps and implying continuity, Mr Moi first ensured a stable transition after the Kenyatta era.

But since then he has moved from transition to consolidation. He has dispensed with former close advisers and gathered around him a group of hand-picked, trusted confidantes who have helped stamp Mr Moi's authority on the nation.

In the course of this process he has presided over the delicate juggling operation of widening the tribal composition of the political coalition by bringing in leaders from other tribes, such as the Luo, Masai, Kamba and Kalenjin, while at the same time trying not to alienate the Kikuyu, some of whom see their hitherto privileged position under threat.

Economically he has also done much to spread the benefits of economic development more evenly across the country and encourage commercial enterprise, traditionally the preserve of the Kikuyu, among other ethnic groups.

The manner in which it has been achieved, however, has often been controversial, with critics charging that debate has been stifled and human rights abused. Leading church representatives, members of the bar and academics have been antagonised.

Perhaps the turning point in what had been a fairly benign administration came with the 1982 coup attempt led by junior air force officers. Since then Mr Moi has conducted a heavy-handed clampdown on dissent, real or imagined.

"The problem with a one-party state like Kenya is that there is no conceptual difference between dissent and dissidence," says a political observer.

Presidential power has been further strengthened since the General Election in March this year. Parliament has lost its more outspoken MPs, the cabinet has been reshuffled, the constitution amended and moves made to clip the wings of the judiciary and clergy.

The stringent curbs on internal opposition began during the election campaign with the introduction of the controversial queuing system under which members of the ruling party, Kanu, queued in public behind the polling booth for the candidate of their choice.

This increased the power of the party in the selection process, enhanced the opportunity for intimidation and alienated the urban middle class who found the process personally demeaning.

Amid widespread allegations of ballot rigging and manipulation, parliamentary critics of the President like Martin Shikuku were defeated.

In April Mr Moi reshuffled his cabinet replacing Mr Mwai Kibaki as Vice-President with former University Chancellor Josephat Karanja. Mr Kibaki, whose political career stretches back to pre-independence, was the leading spokesman in the government for the powerful Kikuyu and widely regarded as one of the few politicians with sufficient authority and an independent power base to mount effective opposition to the President.

After the cabinet it was the turn of the judiciary. In early August, parliament rushed through a constitutional amendment giving the President power to dismiss High Court and Appeal Court judges.

The bill, which received unanimous assent and hardly any debate, also strengthened police powers by allowing them to detain those arrested on suspicion of capital offences — which includes treason — for up to 14 days before bringing them to court.

Kanu has also recently been reshaped and in the past two months several political activists have been rounded up. Raila Odinga, son of former Vice-President, Mr Oginga Odinga, who was released in February after five years in detention without trial, has once again been detained.

Several others, including former MP Mr Kimani wa Nyoike, have been jailed for participating in clandestine political activity.

President Moi's motives are not clear, for the government has not been under obvious threat. The armed forces commander, General Mahmoud Mohamed, a Kenyan of Somali origin, has Mr Moi's confidence, and the army, air force and police have been throughly vetted since the 1982 coup attempt.

Although about 80 people have been jailed after summary trials for their membership of the opposition movement Mwakenya, most observers doubt whether the organisation poses a real threat to the government or commands any support in the country.

Despite this, President Moi remains extremely wary of any political dissent. He is tireless in his efforts to maintain support at the grassroots and nip opposition, real or suspected, in the bud, and often raises the bogey of subversives in the pay of foreign masters.

In the meantime, whispering campaigns mounted at a district level against three Kikuyu ministers, Mr Mwai Kibaki, Mr Waruru Kanja and Mr Kenneth Matiba, have raised the prospect of more cabinet changes to come.

Mr Moi, says one political observer, "is a master at forming alliances, dividing groups and ruling over them. But he is scrupulous in keeping the tribal balance. It's a strategy which he sees an being genuinely good for Kenya. He wants Kenya to be stable and unargumentative."

The President "is a master at forming alliances, dividing groups and ruling over them. But he is scrupulous in keeping the tribal balance. It's a strategy which he sees an being genuinely good for the country. He wants Kenya to be stable and unargumentative"

But the consolidation of his personal authority and his increasing reliance on hand picked loyal proteges, like Mr Nicholas Biwott, Minister of Energy, Cabinet Secretary Mr Joseph Arap Letting and Vice President Karanja, may also be a reflection of a belief in State House that testing times lie ahead.

Kenya's population will almost double by 2000. Already the shortage of arable land is causing a drift to the burgeoning shanty towns around Nairobi.

Unless 6m jobs can be created, unemployment, urban poverty, crime and disorder could increase with the likelihood of a parallel deterioration in the political situation.

There are already worrying signs of discontent, notably a widespread outbreak of rioting recently at university campuses and colleges.

With an increase in the number of students and less resources going towards education, the sector is already under considerable strain. As graduate unemployment rises and opportunities in the civil service disappear students could quickly become the focus of a renewed challenge to the status quo.

FOREIGN AFFAIRS

Close ties with the West

WHEN MRS Margaret Thatcher visited Kenya earlier this year she warmly endorsed the record of President Daniel arap Moi.

"We admire your country's peace and stability, policies which recognise the worth of individual effort and personal endeavour — and an economy in which private ownership and private industry have been encouraged," she told the President.

In many ways the meeting between Mrs Thatcher and President Moi was a meeting of minds. She found a President who emphasised the importance of the small business person, social order, discipline, stability and prosperity at the family level in a country deeply imbued with capitalist aspirations.

Mrs Thatcher did not express concern, in public at least, about Kenya's human rights record and in return President Moi did not press her on South Africa sanctions, an issue he has never enthusiastically endorsed.

Her Kenyan safari, during which she was met by large and enthusiastic crowds, marked a high point in relations between two countries tied by history and commerce.

Kenya is one of the UK's most important trading partners in Black Africa and there is an estimated £1bn of British capital invested in the country. It also has the second largest number of resident British and former UK citizens on the continent.

The well developed port of Mombasa provides the British navy with an important refitting and resting post on the African coast while three British army regiments a year carry out military training and exercises in Kenya.

The US is also granted basic naval facilities at Mombasa and provides some modest security assistance to the military. But Kenya's strategic importance in the region has declined recently with the reduced threat of Soviet expansionism in Ethiopia and Somalia.

For Britain and the US, Kenya's importance stems largely from its position as a pro-western capitalist bastion of economic success which, unlike it neighbours, shuns ideological postures on geo-political issues.

Relations with most European countries, particularly Italy and West Germany remain very good. Western donors continue to regard Kenya as country of stability in a continent destabilised by political upheavals and natural disasters.

However, there are still fences to be mended. One of the first tasks for Dr Robert Ouko, appointed Foreign Minister earlier this year, is to repair relations with Sweden and Norway.

Last year President Moi had to call off his state visit to these two countries, in the face of widespread anti-Kenyan feeling in Scandinavia over human rights abuses.

And in the past two months there has been what amounts to a counter attack, with Sweden and Norway bearing the brunt of a populist outcry against dissident activity abroad and foreign intervention at home.

After the BBC broadcast an interview with Koigi Wamwere, a prominent critic who is resident in Norway, members of the youth wing of Kanu, Kenya's ruling party, staged a demonstration outside the Norwegian embassy in Nairobi. Senior politicians have also called on the government to break off relations with countries which harbour political dissidents.

But so far the deterioration has not reached crisis point. Indeed, Scandinavian diplomats say despite their concern about human rights contacts with Ministry officials remain cordial.

Deeper problems lie closer to home. The absence of President Yoweri Museveni of Uganda and Prime Minister Sadiq el Mahdi of Sudan and any of their senior colleagues at celebrations to mark President Moi's 10th anniversary in power had more than symbolic importance.

Tensions with Sudan remain acute. Recently Sudanese Prime Minister Sadiq el Mahdi accused Kenya of forming a conspiracy with the international trading company, Lonrho, and backing the Sudanese People's Liberation Army to exploit the potential oil reserves of southern Sudan.

Sudan also continues to raise the problem of the Ilemi triangle.

Continued on page 6

FISCAL POLICY

Squeeze on the public purse

WHILE KENYA has generally satisfied the International Monetary Fund's performance criteria in terms of government spending and borrowing and credit ceilings, further cuts in the budget deficit will be needed before the Fund will agree to an Enhanced Structural Adjustment Facility (ESAF).

Kenya cut the deficit substantially from 8.1 per cent of Gross Domestic Product in 1986-87 to 4.4 per cent last year, but this was achieved only by delaying payments for expenditures already incurred to the tune of about $110m.

Had these been included in the fiscal year to June 1988, then Kenya would have overshot its IMF fiscal ceiling by more than 1 per cent of GDP. Officials deny that the payments were delayed in order to meet the IMF target, arguing that such payment carry-overs occur often.

The need to deal with the problem is acknowledged both in the revised fiscal targets for 1988-89 and the anticipated introduction next year of cost-sharing arrangements in education and health. The budget deficit for the year to June 1989 has been revised upwards to almost $400m or 4.5 per cent of GDP compared with the budget forecast of 3.4 per cent.

The government has raised its revenue target in anticipation of some inflow of user-fee income in the first half of 1989. But with projected aid inflows having been lowered by $165m, total revenue, including grants, is forecast to be 7 per cent below budget.

Consequently, $140m has been cut from the development budget and if Kenya can meet these tighter spending targets, overall government spending will fall below 30 per cent of GDP compared with more than 33 per cent in 1987.

To further increase state revenues above the current level of 23 per cent of GDP would probably inhibit private sector growth

The Kenyans believe, almost certainly correctly, that to push state revenues above 25 per cent of GDP — the current figure is 23 per cent — would inhibit private sector growth. Accordingly, in tandem with the politically sensitive strategy of user charges for social services, both the size and efficiency of government spending is under scrutiny.

An obvious, but also politically difficult target, is the size of the civil service. The IMF programme requires Kenya to "contain" the growth of the public service, while maintaining a tight wage policy - a euphemism for a further decline in public sector real earnings in the public sector.

At the same time, there is scope for increasing revenue without raising tax rates. The effective rate of sales tax collections is only 17 per cent compared with an average rate of 31 per cent. But the main thrust on the revenue side concerns cost recovery. In education, for instance, user charges account for no more than 2 per cent of total spending; parents and local communities make big contributions especially towards capital development costs.

Tony Hawkins

BALANCE OF PAYMENT($m)

	1985	1986	1987
Exports	943	1,170	909
Imports	1,273	1,457	1,623
Balance	-329	-286	-714
Services (net)	41	35	3
Transfers (net)	192	207	215
Current account	-96	-44	-496
CAPITAL ACCOUNT:			
Private	5	29	12
Public	-56	74	272
Short-term	34	31	120
Net Capital	-17	134	404
Overall Balance	-113	90	-92

Source: Kenya Economic Survey 1988

Africa's role model

Continued from Page 1

tribution in the near future. There has been little follow-up to the Confederation of British Industry's investment conference held in London early this year.

However, with the trade deficit averaging $400m in recent years and rising to $714m last year, the country is heavily reliant on aid inflows, and external capital requirements are projected at some $5bn during the 1988-92 period. Fortunately Kenya enjoys a special relationship with the donor community, largely as a result of its past performance and its reformist policy framework. Accordingly, the financing gap has been virtually closed by existing aid commitments of more than $4.6 bn.

Foreign debt obligations are a severe burden too. Kenya's foreign debt, including undisbursed amounts but excluding private sector borrowings, totalled $5.2bn last year with a debt-service ratio of 37 per cent.

If private sector payments are taken into account the debt-service ratio exceeded 40 per cent but is projected to fall below 30 per cent in the early 1990s. The combination of a current account deficit averaging more than $500m annually and debt repayments of a further $500m a year, highlight both the fragility of the external payments position and the ongoing reliance on aid.

Kenya relies on aid. Fortunately it is on good terms with the donor community, largely as a result of its past record and its reform policies

Maintaining favour with multilateral donors — notably the Fund and the World Bank — is not going to be as easy as illustrated by the recent negotiations over Kenya's request for an Enhanced Structural Adjustment Facility (ESAF), which gives access to lower cost, longer-term IMF funding as well a stamp of approval that would improve access to low-cost World Bank funding.

The IMF negotiations reportedly ran into problems over plans for further budget deficit reductions. This is a politically sensitive area with the Kenyans undertaking a programme of budget rationalisation that includes levying user-charges for social services such as education and health.

A further question mark on both the budgetary and aid fronts concerns Kenya's capacity to absorb aid. Hopefully this can be partially overcome by the shift from project to programme and sector aid.

In 1988, real economic growth is estimated at close to 5 per cent, slightly up from 4.8 per cent in 1987, but with inflation rising from 7 per cent last year to close on 10 per cent.

With investment maintaining its recovery, the economy should come close to the target 5.4 per cent expansion rate over the next few years, so long as there are no further nasty setbacks to coffee and tea prices and policy implementation can be kept on course.

Whether this will be enough to prevent an escalating unemployment crisis in the 1990s remains to be seen.

In any event, Kenya deserves credit for its bold and realistic strategies. If it can make them work — a formidable task given the population and balance of payments constraints — not only will it enhance its African "showpiece" image but it will also have a positive demonstration effect convincing others of the viability and desirability of structural reform.

Farming plays a key role, reports Julian Ozanne

Agriculture still the economy's engine of growth

KENYA'S AGRICULTURAL sector has always been the national engine of economic growth and development.

It accounts for approximately 31 per cent of Gross Domestic Product, employs about 80 per cent of the population, contributes 65 per cent of export earnings and provides nearly all the country's food supplies.

The sector has a major role to play if the country is to meet the challenge of a 5.6 per cent annual economic growth and satisfy the demands of a population expanding at a rate of 3.7 per cent.

By 2000, says the government, Kenya's farmers must provide food security for a population which will have almost doubled to 35m. The sector must generate farm family incomes that grow by at least 5 per cent a year, absorb new farm workers at a rate of 3 per cent a year and supply export crops for a 150 per cent increase in agricultural export earnings.

In the face of falling commodity prices, Kenya's sensitivity to climatic changes and rapid urbanisation, the challenges facing farmers is great. By 2000 they must provide food security to a population which will have doubled to 35m

In the face of falling international commodity prices, Kenya's sensitivity to climatic changes, rapid urbanisation and pressure on scarce arable land, the challenge is formidable.

In the decade after independence, Kenya's agricultural sector averaged 4.6 per cent growth, largely fuelled by the easy option of expanding acreage under cultivation in areas of high to medium potential land.

But as these options ran out in the 1970s and early 1980s, the sector went into decline averaging an annual 2-3 per cent growth. Government intervention in marketing, pricing and in the supply of inputs through top heavy state-owned companies and a lack of direction in policy planning exacerbated this decline.

But three years ago the government embarked on its ambitious Agricultural Sector Adjustment Programme, backed by substantial support from the World Bank and other donors. Its objectives are to:

- Improve the use and distribution of inputs, especially fertiliser, among smallholders
- Maintain attractive producer incentives while streamlining marketing arrangements to contain budgetary deficits and reduce delays in paying farmers
- Reduce the public sector role in marketing
- Reform and divest selected state-owned corporations
- Improve agricultural credit lending policies

Significant progress has been made in many of these areas, particularly in price incentives to farmers. Earlier this year the government announced increased producer prices for maize, wheat, cotton and sugar from between 4.3 per cent to 22.4 per cent.

The government has also introduced cost recovery measures in areas such as livestock dipping and increased the price of fertiliser and streamlined its distribution and supply. The availability of fertiliser has increased by 40 per cent since 1984.

Reform and restructuring of major state-owned companies, like the National Cereals and Produce Board, the Kenya Meat Commission, the South Nyanza Sugar Company and the National Irrigation Board, are also under way.

The sector has responded well to these early measures. Agricultural output grew by 5 per cent in 1986 and 3.9 per cent in 1987.

Last year's slightly poorer performance was a result of a drop in world prices for coffee and tea, Kenya's two leading agricultural foreign exchange earners, and erratic rains, which affected production of wheat, maize and coffee.

Production of pyrethrum increased 26 per cent and sugar cane output rose by 4 per cent, both continuing their strong recovery since 1984. Output of ready made tea, which has more than doubled since 1981–82, continued to set records, rising by 13 per cent during the 1986–87 crop year and is due to increase further this year.

In policy terms Kenya has come a long way in a short time, but the slow implementation of decisions already taken threaten to severely constrain these good intentions and the potential benefits to sustaining agricultural development.

Many of the important reform initiatives, like the restructuring of the NCPB and the Kenya Agricultural Research Institute have become grounded in the bureaucratic maze that dominates policy making and implementation.

There is little effective co-ordination between the seven ministries, five national co-operatives and more than 40 statutory boards and agencies involved in implementing agricultural policy. Also, there is no established system for evaluating and monitoring the progress of reform.

Given the shortage of arable land, only 8.6 per cent of Kenya's 44.6m hectares is classified as medium to high potential.

Practical policies aimed at encouraging smallholder farmers, who account for about 75 per cent of total output, to adopt more productive practices by expanding extension services and credit facilities have been slow in reaching their target, while research into high yield new varieties and farming practices have been held up by the slow pace of reform.

"If Kenya is to maintain its good performance in food self sufficiency in the face of its population explosion the government will have to mount a concerted effort to close the gap between potential yields and existing yields. This will be the only way to achieve real per capita growth and increase export earnings," comments an agriculturalist.

Sustained and increased quality and crop yields are particularly important for Kenya's main agricultural foreign exchange earners, coffee, tea and horticulture.

Horticulture, for example, is a flourishing private industry in Kenya with substantial export potential for fruit, vegetables and fresh cut flowers in the European market.

In 1987, 36.5m kg of horticultural exports, valued at Ksh900m, were exported to Britain, West Germany, France and Holland – a 43 per cent increase in value but only a 1 per cent increase in volume compared with 1986.

Kenya's farmers have traditionally reacted positively to favourable incentives. But the constraints presently holding back the agricultural sector will have to be addressed urgently if the nation is to harness the formidable energies of its enterprising private sector to the goals of increasing the standard of living through an agricultural-led growth.

Tea and coffee

Taste of success

KENYA HAS a lot of its economic hopes riding on the development of its coffee and tea industry.

The two commodities currently produce 32.5 per cent of total agricultural value using only 4.5 per cent of the total land area. And, as the second and third largest foreign exchange winners after tourism, they account for about 50 per cent of export earnings.

The government has placed great emphasis on expanding these labour intensive crops, largely because of the rapid population growth and the need to create jobs in the rural sector to stem the flow of people into the cities.

But even more pressing is the fact that with the balance of payments deficits likely to continue well into the 1990s, coffee and tea production will be vital for maintaining foreign exchange earnings.

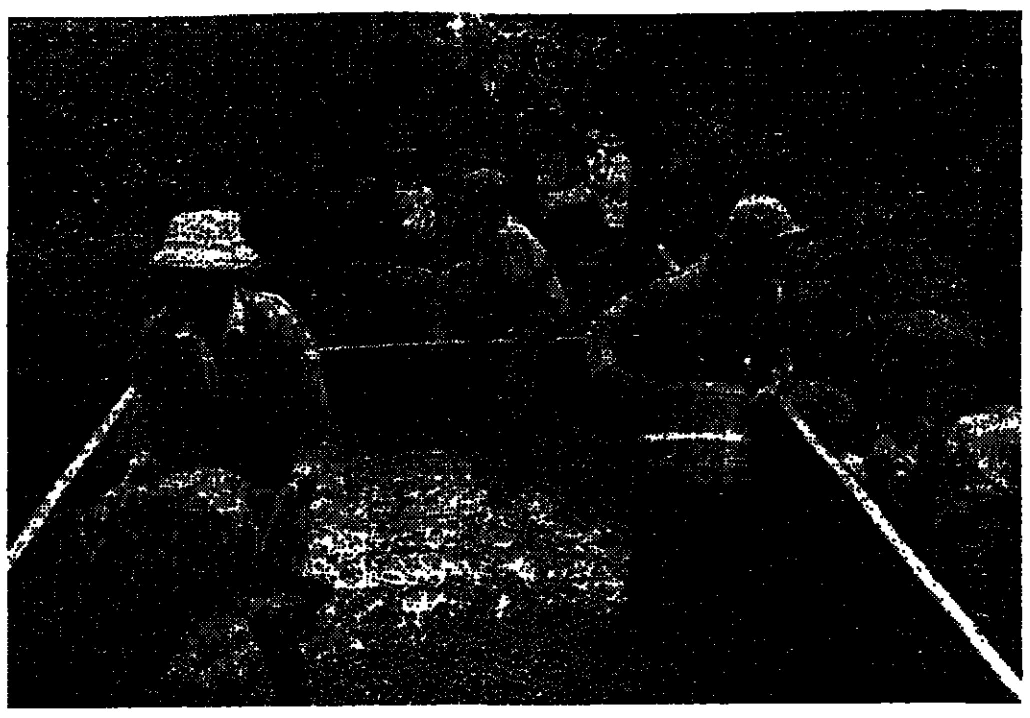
"The need to expand agriculture's net export earnings requires an expansion of tea, coffee and horticultural production and other cash crops: coffee, tea and vegetables earn five to 10 times the foreign exchange per hectare than can be saved by import substitution for food grains," says a 1986 government report.

The authorities have set out an ambitious expansion programme to almost triple coffee and tea production by 2000 by increasing acreage under cultivation and boosting crop yields. Smallholders, who grow almost half of Kenya's tea and 62 per cent of its coffee, are the focus of the development plans.

But there are powerful constraints operating to frustrate these objectives. Some, like tumbling international commodity prices and erratic weather, are beyond the government's control. But many others are home grown problems which need urgent attention.

The coffee sector is the more problematic of the two crops. In 1987 production fell by 8.7 per cent from the previous year to 104,000 tonnes, while the reintroduction of export quotas by the International Coffee Organisation (ICO) last year after a brief spell of free trade, forced down export earnings from the crop from 7.8bn shillings to 5bn shillings.

According to the Coffee Board of Kenya (CBK), output is expected to rise to about 124,000 tonnes (2m bags) this year. Yet, while Kenya was given a 40,000 bag increase in its quota at the ICO meeting in September, the board says that it will be unable to sell half of the 3.1m bags currently in stock.



Harvest time at a coffee plantation near Thika

If sales are not increased significantly in the non-quota markets the CBK may soon be faced with a heavy bill for storage.

Furthermore, with declining prices farmers say that in 1987–88 the average cost of producing a tonne of coffee has exceeded the net average price received by growers and that the incentives to increase production in line with government targets are becoming very marginal.

They complain that a selective government export tax on coffee, which accounts for about 10 per cent of gross proceeds, acts as a penalty on production.

And, according to agricultural experts, small-scale farmers, the backbone of the industry, have over the past few years suffered from decreasing yields as a result of an inefficient coffee marketing system.

The network of coffee co-operatives which serve small farmers have been held back by poor management, weak financial controls, excessive deductions for marketing costs, late payments to producers and political interference with co-operative management and credit allocation.

The increasingly predatory role of the CBK, itself subject to substantial political interference in appointments of key management staff, is threatening to suffocate the private sector. Many farmers believe CBK has designs on the hitherto private control of milling and coffee auctioning carried out by the Kenya Planters' Co-operative Union.

Kenya's tea industry has been relatively free of such interference and according to a world bank report "continues to stand as an example of Kenya's potential for excellence".

This has been largely due to the remarkable record of the Kenya Tea Development Authority, a semi-autonomous government institution which has become a model for developing small-scale agriculture and stimulating rural employment.

KTDA is solely responsible for providing small tea growers with inputs and technical advice and pays them a price directly tied to the sale price of tea on the world market. Backed by substantial political support the authority has been successful in stimulating participation of farmers in the ownership and running of local factories. And, unlike the coffee industry, farmers say they receive their payments regularly and on time.

Kenya is the world's third largest tea producer after India and Sri Lanka and since 1981 production has more than doubled. Last year production rose 8.7 per cent to a record 155,800 tonnes from 143,300 tonnes in 1986. Output is expected to top about 160,000 tonnes this year.

Smallholder yields also increased 10.5 per cent per hectare between 1986 and last year – mostly as a result of increased availability of fertiliser.

The tea sector has been more harshly affected by world market forces than coffee. At the Mombasa auctions – which account for more than half of tea exports – prices were down 20 per cent last year from an average of Ksh27.36 in 1986 to Ksh21.80.

Exports took a further battering last year when Pakistan, the second largest customer for Kenyan teas after Britain, restricted imports from Kenya because of a growing trade imbalance. Other East African countries, like Uganda and Tanzania, were quick to exploit Kenya's misfortune.

While Kenya has continued to boost sales to Britain, exporting 48 per cent of its crop there in 1987 and becoming Britain's largest supplier accounting for 25 per cent of total consumption, the Tea Board of Kenya has been forced to look for new markets, particularly in the US, Soviet Union, Iran and Saudi Arabia.

KTDA's shining record since independence has been threatened recently by the government's increasing attempts to determine key appointments of senior officials.

This has weakened the management structure and inhibited decision making, particularly in financial matters, and comes at a crucial time when the authority has been hit with the burden of servicing substantial loans incurred in the 1970s when the exchange rate was more favourable.

KTDA has also been saddled with processing tea produced in the Nyayo Tea Zones, a government project to protect indigenous forests from encroachment by smallholders by establishing a tea belt around Kenya's forests. Roads and factories have failed to materialise and the authority has had to step in to support this project.

"In both coffee and tea the government must draw a clear line between the public and private sector roles to encourage farmers and lend security to the industry. Otherwise the expansion plans will remain firmly where they are – on paper," says an agricultural analyst.

Julian Ozanne

Tony Hawkins on the formidable challenges facing the authorities in realigning the economy

A strategy for export-led industrialisation

HEAVY dependence on tourism, coffee and tea for its foreign currency earnings underscores Kenya's need for an export-oriented industrial strategy.

While manufacturing has been the fastest growing sector of the economy since independence, increasing its share in Gross Domestic Product from 7 per cent in 1964 to 13.2 per cent in 1987, in recent years expansion has slowed and fallen behind target growth rates.

After expanding at 11 per cent annually in the first decade of independence, industrial growth slowed in response to the oil price increases in the 1970s, averaging some 6 per cent a year over the past 10 years and falling further to 5 per cent annually since 1984.

In the immediate post-independence years, industry was favoured by an overvalued exchange rate, which kept imports out, and subsidised interest rates that encouraged new investment and direct government participation in industrial development.

Kenya must attract more investment, boost jobs and improve efficiency if it is to meet growth targets for the rest of the century

But from the mid-1970s, the environment deteriorated reflecting slower agricultural expansion, the break-up in 1977 of the East African Community and the inevitable structural problems resulting from an import-substitution strategy.

By 1985 the share of imports in total domestic supply had virtually halved to 19 per cent from 36 per cent in 1980. Import substitution was responsible for some two-thirds of industrial growth between 1976 and 1985 with the balance emanating from domestic market growth. Exports actually declined during this period with their share in manufacturing production falling steeply from more than 22 per cent in 1973 to 7.5 per cent in 1985.

Import substitution is by its very nature a dead-end strategy, especially in a small market like Kenya; as import ratios fall so the opportunities for further expansion are reduced.

But this is only part of the story. The iron law of import substitution industrialisation holds that even after high levels of import-replacement, manufacturing remains a net user of foreign exchange.

Kenya's manufactured exports earn only about 13 per cent of the foreign exchange used by industry – a very weak performance compared with 50 per cent in Zimbabwe.

This highlights the need for export-led industrialisation. It seems clear that manufacturing will reach the targeted growth rate of 7 per cent annually only if it can make the break into export markets, initially within the Preferential Trade Area but subsequently into world markets.

The 1986 Sessional Paper called for a restructured manufacturing sector capable of employing more workers in high productivity areas and of penetrating foreign markets.

The policy paper identified three missing ingredients for sustained industrialisation in Kenya – a larger and more rapidly-expanding domestic market, a more efficient, low-cost high-productivity industrial sector and a larger supply of entrepreneurs.

The central policy reform is, of course, import liberalisation and while imports in three of the five categories have been liberalised, managers say there has been no discernible improvement in the speed at which import licences and foreign exchange allocations are issued.

The good news for Kenyan industry, according to a recent World Bank study, is that a high proportion of manufacturing is competitive in relation to imports, particularly foods, beverages, tobacco and some basic toiletries. However, such products are still not sufficiently competitive in export markets.

Proposals to boost non-traditional exports include increased compensation (subsidies) for exporters, an export finance guarantee scheme, a "green" channel that would cut red tape and, most important of all, the establishment of export processing zones and of a manufacturing-in-bond scheme.

Even if an export breakthrough can be achieved by the more efficient companies, it will be necessary to rationalise production and substantially improve efficiency in heavy industry, such as steel, metals, chemicals, transport equipment and electrical goods.

Price control – probably the second of industry's three main complaints – is being slowly phased out, but here too there are complaints over timing. Nonetheless, it is recognised that a major problem has been the decline in industrial investment, at least partially attributable to price controls. It is estimated that Kenya's industrial capital stock has declined more than 15 per cent in the past decade.

Kenyan products are still not competitive in export markets

Substantially higher investment is a key to industrial growth. Given the evident reluctance of foreign investors to start new ventures in Kenya, the onus is on the government to further cut its budget deficit and offer new and better incentives while improving the financial sector's investment capability.

The third key problem identified by industrialists is the delay in securing dividend remittances. At the same time, a lower corporate tax rate and faster dividend repatriation would improve the investment climate.

While indigenisation of manufacturing remains an important government priority, Kenya has learned that state ownership of industry is not the way to achieve it. The 1986 Sessional Paper calls for the divestment of some public enterprises which, if businesses are sold to Kenyans, would increase local ownership, while simultaneously taking steps to strengthen small-scale industrial enterprises.

Kenyan industry faces formidable challenges in the 1990s. Its post-independence growth rate of some 4 per cent annually is little more than half the 7 per cent projected for the rest of the century and if it is going to fulfil the role reserved for it in the development plan, increased investment, efficiency and job-generation must be achieved.

The fact that no other African country – Mauritius excluded – has yet managed to make the transition to sustained export-led growth underscores the enormity of the challenge.

Leading imports by category ($m)

	1985	1986	1987
Food/Beverages	133	143	119
Industrial supplies	430	503	570
Fuels/lubricants	458	294	343
Plant/machinery	219	314	389
Transport equipment	148	320	232
Consumer items	66	74	86
Total	1,456	1,649	1,739

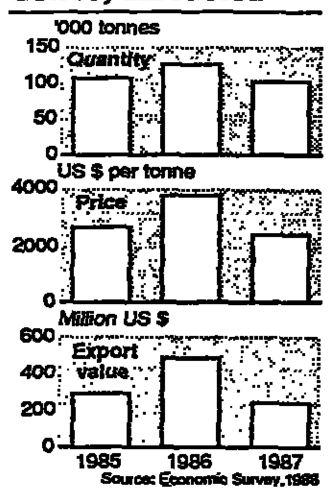
Source: Economic Survey 1988

Imports by country (K£m)

	Value	% of total
UK	244	17.1
UAE	229	16.0
Japan	156	10.9
West Germany	118	8.3
US	101	7.0
France	98	6.8
Rest of Africa	43	3.0

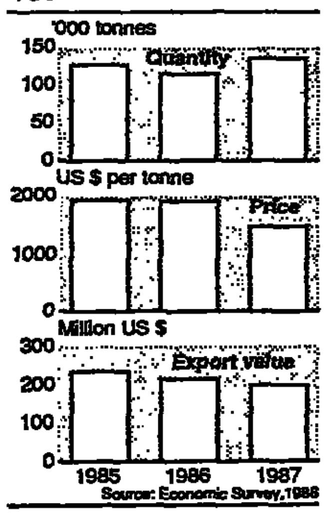
Source: Economic Survey 1988

Coffee, unroasted



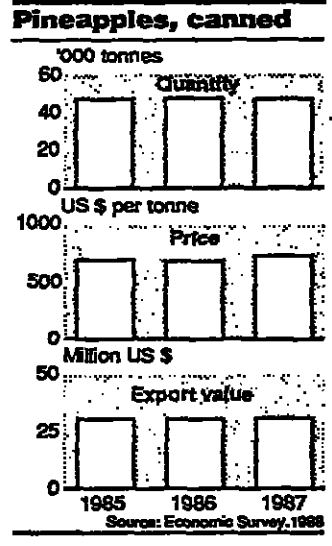
Source: Economic Survey, 1988

Tea



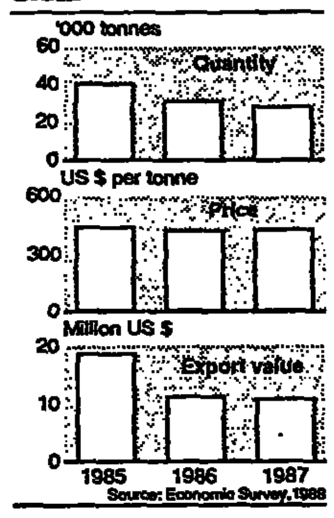
Source: Economic Survey, 1988

Pineapples, canned



Source: Economic Survey, 1988

Sisal



Source: Economic Survey, 1988

Small-scale industries

Sector inhibited by a skills shortage

IF UNEMPLOYMENT is to be contained at the 1984 level of 13 per cent, Kenya needs to create some 5.5m jobs by 2000. Even the most optimistic projections imply that the formal wage sector will – at best – generate 1.2m jobs leaving small-scale agriculture, rural non-farming activities and the urban informal sector to create between them more than 4m jobs.

The government's Sessional Paper on economic policy identifies three sectors to be encouraged: export-oriented manufacturing; efficient import substitution; and small-scale employment-intensive industry.

Small-scale industrial activity will do best, it argues, in an openly competitive environment with the government's role confined largely to enabling activities such as the creation of the necessary infrastructure, the provision of more relevant training in entrepreneurial skills and, importantly, more effective measures to channel credit to new entrepreneurs.

In the past the small-scale sector has been the main vehicle used to indigenise industry. Two distinct sub-sectors are identified: modern small-scale companies employing between 10 and 50 workers and the so-called micro-enterprises or informal sector proper, employing less than 10 people.

The record to date is less than encouraging. The small-scale sector's share in total industrial output fell from 17 per cent in the early 1970s to 7 per cent in 1980 but, despite this, the micro-enterprise sector has expanded employment at an impressive 12 per cent annually.

Even so, the entire small-scale sector, embracing both categories, accounts for only 12 per cent of total manufacturing employment compared with more than 60 per cent in Nigeria, 50 per cent in Sierra Leone and between 20 per cent and 30 per cent in Latin American and Asian countries.

The justification for a small-scale strategy is beyond question

Particularly worrisome, too, is the failure of small-scale companies to reach adulthood. The state-established Kenya Industrial Estates (KIE) has funded about 800 small ventures of which less than 5 per cent achieved sustained growth. The same story is true at the micro-enterprise level where very few operations breach the size barrier into the category of employing more than 10 workers.

This is particularly disappointing given the investment of an estimated $35m in the small-scale sector over the past 20 years with research suggesting a success rate of less than 50 per cent. Some critics believe that, to date, the larger small-scale enterprises (in the 10–50 workers category) have received too much rather than too little help and since 1984 a harder-headed strategy has been adopted.

The main reason for the poor performance to date is said to be the shortage of entrepreneurial skills which will be a tough nut to crack in the 1990s, but a problem that must be solved if the job strategy is to succeed.

Clearly, at both levels of small enterprise, more effective credit provision schemes are going to be crucial. It costs just over $200 to create a job in the informal sector, nearly $6,000 in small-scale enterprise and $22,000 in modern large-scale manufacturing. Given these numbers, the justification for the small-scale strategy is beyond question. The trick is to make it work.

Tony Hawkins

Tony Hawkins examines moves to liberalise the banking sector

The long road to a free market

KENYA'S FINANCIAL sector is in the throes of far-reaching reforms reflecting a shift away from controls to a more flexible, market-driven system.

In the past year banks have been in the frontline of the government's stabilisation programme with monetary policy being used to squeeze demand, slow inflation and encourage savings.

During the 1985–87 period the money supply grew at more than 21 per cent annually with government borrowing accounting for 40 per cent of this expansion in 1986 and two-thirds in 1987.

The authorities responded with a three-pronged attack on credit creation, imposing a 10 per cent annual growth rate of bank lending (0.8 per cent a month) and mopping up surplus liquidity with the issue of Treasury Bonds, carrying an effective interest rate of 16.5 per cent for five year money.

In a market where the maximum bank lending rate is 15 per cent, this gave rise to an immediate outflow of funds from the banks into the bonds. The screw was tightened further earlier this year when bank capital adequacy ratios were raised from 5 per cent to 7.5 per cent of total deposit liabilities. The result was that money growth halved so that by mid-1988 domestic credit was some $50m below the ceiling agreed with the IMF.

The main reason for this was the reduction in government bank borrowing reflecting the success of the Treasury Bond issue in tapping non-bank sources of finance. With the Fund having subsequently agreed to higher credit ceilings, bankers say it will now be possible to nudge the rate of credit growth up to 13 per cent in 1989, a move which is likely to be necessary anyway to accommodate an increased budget deficit.

One adverse consequence of the liquidity squeeze, has been the advent of extremely volatile interbank markets with the rate for 90-day money, fluctuating in recent weeks between a low of 6 per cent and a high of 16 per cent.

The Kenyan authorities have kept interest rates positive in real terms since 1984 for policy reasons, with the minimum deposit rate currently standing at 10 per cent, while inflation is estimated at no more than 8 per cent. In a tight market prime clients have been borrowing at a real interest rate of around 5 per cent, while second-rank borrowers have been forced into the finance houses (non-bank financial institutions) at nominal rates ranging from between 18 per cent to 24 per cent.

Because most of the banks operate NBFIs as subsidiaries, this has helped them to maintain profit margins despite the rise in the cost of their funds.

In addition to the use of monetary policy for demand management, the authorities have embarked on longer-run strategies aimed at strengthening the role of market forces in the financial sector. These include the introduction of a 6 per cent cash ratio, the establishment of a discount window at the central bank, more variety in the maturity and nature of government debt instruments and a stronger supervision department at the Bank of Kenya.

The banks themselves are actively involved in efforts to develop new financial instruments and create the active secondary markets necessary for efficient open-market operations by the authorities.

One pre–requisite is new legislation to allow specialised institutions, like Merchant Banks and Discount Houses, to be established as a means of generating an active market in financial paper.

Once a secondary market is operational for trading in government securities, the way will be open to extend its coverage to include bankers' acceptances, trade bills and certificates of deposit. Bankers are also critical of the "dual ratio" policy of money supply management – the 20 per cent liquidity ratio and the 6 per cent cash ratio – and have suggested that the latter be reduced or abolished altogether.

The market is dominated by the government-owned Kenya Commercial Bank with a market share of just over 25 per cent closely followed by Barclays with Standard Chartered in third place. These three banks account for roughly two-thirds of total activity.

Far-reaching changes are being proposed at the long end of the market with the government committed to establish a Capital Markets Development Authority charged with the promotion of an active capital market.

A likely casualty could be the Capital Issues Committee established in 1971. The committee is blamed for both discouraging new capital issues and insisting that shares be issued at unrealistically low prices. The Barclays Bank share issue took no less than six years while both Bata Shoes and Brooke Bond cancelled new issues, though largely for reasons other than new issue market delays.

A World Bank report describes the stock market as "moribund" pointing out that there were a mere 4,000 trades in 1985 compared with more than 16,000 in 1973. There are more than 50 listed companies with at least one major new listing in the pipeline for early 1989.

Yields currently average 10 per cent – slightly ahead of the inflation rate, but actual returns, including capital gains have been handsome, averaging 30 per cent annually since 1986.

A key problem, endemic in Africa, is the reluctance of investors to sell shares. When sellers put shares on the market they are snapped up and locked away both by individual and, more particularly, institutional holders. The result is an equity drought, and a sluggish secondary market.

The aim now is to get more companies to come to the market and to this end the government is being urged to reduce corporate tax rates for companies that take the plunge and allow underwriting charges as a tax deductible expense.

Aside from encouraging savings and investment, an active new issue market would widen the scope both for the indigenisation of foreign-owned enterprises, which has a high political priority, and for divestiture and privatisation of state-owned activities, also an important item on the economic policy agenda.

Real and nominal exchange rate * (Index 1980=100)

	1984	1985	1986	1987
Real effective rate	101.7	100.3	87.0	78.6
% change	7.1	-1.4	-13.3	-9.7
Nominal effective rate	90.0	86.6	77.1	71.6
% change	6.0	-4.4	-11.0	-7.1
US dollar rate	51.8	45.3	45.9	45.3
% change	-7.5	-12.5	1.3	-1.3

* Exchange rates are annual average; a reduction in the index indicates devaluation

Source: IMF

In the past year banks have been in the frontline of the government's stabilisation programme with monetary policy being used to squeeze demand, tackle inflation and encourage savings

Mixed ventures: Japanese vehicle being assembled under licence at a UK plant at Thika. The factory also puts together trucks, buses and other Japanese and West German vehicles

Investment incentives

Curbing capital flight

KENYA HAS attracted little new private sector foreign investment in recent years and there has been a significant element of disinvestment, including that by the Asian community.

Official figures, which do not, of course, reflect the substantial capital flight that has occurred, show private sector long-term capital inflows falling from $200m in 1979 to average a mere $10m a year in the 1980s.

To reverse this trend, Kenya established a one-stop investment office – the Investment Promotion Centre – where both local and foreign investors lodge investment proposals without having to trudge from ministry to ministry in search of approvals.

In the past four months, the IPC has handled 24 new industrial projects with a projected investment of some $50m and a job-creation capacity of 2,400 jobs. The main incentives on offer include the in-bond-manufacturing programme, open to local as well as foreign investors; inputs, including capital, are exempt of customs and sales taxes and companies benefit also from a 100 per cent investment allowance on buildings and plant.

A specific incentive for exporters is the export compensation scheme which covers some 750 eligible items. Exporters receive an allowance of 20 per cent of the (FOB) value of their exports, subject to a local value-added content of at least 30 per cent, while duty paid on imported inputs must exceed 20 per cent.

There is a special exemption from sales and import duties for equipment imported for use in small-scale enterprise outside the main cities up to a value of $550,000. In an effort to encourage investment in rural industry, new projects outside Nairobi and Mombasa, are eligible for a 75 per cent investment allowance on plant and buildings whereas in the two main centres the allowance is only 25 per cent.

From next year, all exchange losses arising from the depreciation of the Kenyan currency will be treated as allowable tax expenses. The combined impact of investment allowances, accelerated depreciation and carry-forward tax losses amounts to an effective tax holiday of between two and five years depending on the location of the new investment.

Also important is the fact that unlike most African countries, Kenya allows full remittance of dividends. This is subject to delays, currently running at between a year and 15 months, but industrialists prefer this situation to the alternatives of a remittance ceiling or a formal pipeline. The delays are purely a function of the foreign currency situation and will shorten as and when export performance or export prices improve.

Kenya's constitution guarantees foreign investment against acquisition without compensation. Investments are further bolstered by Kenya's membership of the World Bank's Multilateral Investment Guarantee Agency (Miga), and of the Centre for the Settlement of International Disputes (ICSID).

The Managing Director of the IPC, Mr J N Kimeria, points out too that in the 25 years since independence Kenya has never nationalised or expropriated any foreign investment.

Whether investment codes and incentive packages are successful in substantially increasing foreign investment inflows is questionable. In any event, given the continent's track record, no African government in the 1980s sees economic salvation in foreign investment. Far more realistic are incentive packages that appeal to domestic investors while encouraging existing multinationals to plough back retained earnings.

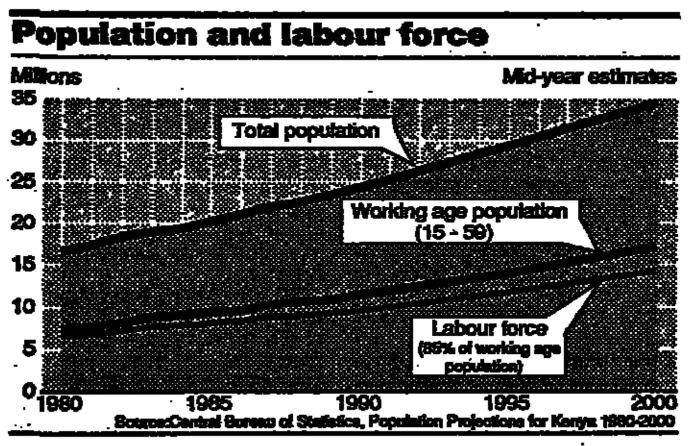
The key to success in this field is a stable political environment allied with a rational and efficient macroeconomic policy framework. Kenya scores highly on both these counts which is why it is more likely to achieve increased investment levels than the rest of Africa.

Tony Hawkins

Julian Ozanne on the government's crisis of numbers

Population solutions that have yet to add up

Population and labour force



Source: Central Bureau of Statistics, Population Projections for Kenya 1980-2000

A LARGE gold digital clock sits ominously like a quiet time bomb on the desk of Mr Michael Heyn, Kenya Director of the United Nations Fund for Population Activities.

It has three numerical displays – one for the time, one for the world population and one for Kenya's population. During the hour of our interview Kenya's population grew from 23,738,553 to 23,738,661 – 108 people an hour.

It is a striking demonstration of a problem which is becoming apparent throughout Nairobi – swelling shanty towns, crowded buses, packed hospitals, over-stretched schools, congested streets and growing unemployment.

Kenya's rapid population growth, which at about 4 per cent in 1986 was believed to be the highest in the world, has become the major constraint to the country's development.

But unlike many other African nations Kenya has, in the past six years, squarely faced up to the challenge.

In a 1986 Government paper entitled Economic Management for Renewed Growth, Kenya's economic blueprint to 2000, the government presented a devastating analysis of the problem in the introductory paragraph.

"At the end of this century, Kenya will have a population of about 35m, 78 per cent more than lived in Kenya in 1984. That population will include a workforce of 14m people, 6.5m more than in 1984. These future workers have already been born."

To accommodate that workforce without a rise in the rate of unemployment, it will be necessary in the next 15 years to almost double the number of jobs in Kenya.

Moreover, at current trends, the urban population will reach 9m to 10m by 2000, over one quarter of the total population, compared with only 3m in 1984.

Unless new workers can be attracted in large numbers to jobs in smaller urban areas and on prosperous farms, it will be necessary to build at least six cities the size of present-day Nairobi. And unless farm productivity in rural towns continues to increase the rural population will be confronted with uneconomic subdivision of the land, migration into marginal areas, falling average incomes and food shortages.

There are also concerns about whether the demand for health services, school places and homes can be fulfilled and with the environmental impact of land fragmentation and over-cultivation.

In many ways Kenya's population problems are a direct result of its success in promoting its people's health and education. Since independence the death rate has fallen from 20 per 1000 to 13 per 1000. And infant mortality has been almost halved from 147 per 1000 to 80 per 1000.

But deeply held traditional beliefs about fertility and the economic necessity for large families are a powerful brake on activities designed to contain the population increase. The average Kenyan family still contains eight children.

However, Kenya has, according to UNFPA, one of the most progressive population policies in Africa. Family planning started in 1967 and Kenya was the first sub-Saharan country to devise a national population policy in 1984 under the National Council for Population Development.

The political leadership and will to curb population growth has accelerated markedly under President Daniel arap Moi, who has often been ahead of his people on this sensitive issue.

Between 1977 and 1984 the use of contraceptives rose from 7 per cent to 17 per cent and, subject to the 1989 census, is believed to be currently between 20 per cent and 25 per cent.

A 1984 survey also found that 31 per cent of married women did not want any more children and 37 per cent wanted to delay their next pregnancy for one or two years.

Clearly the demand for methods of birth control has outstripped the supply and there have been problems with distribution and availability of contraceptives.

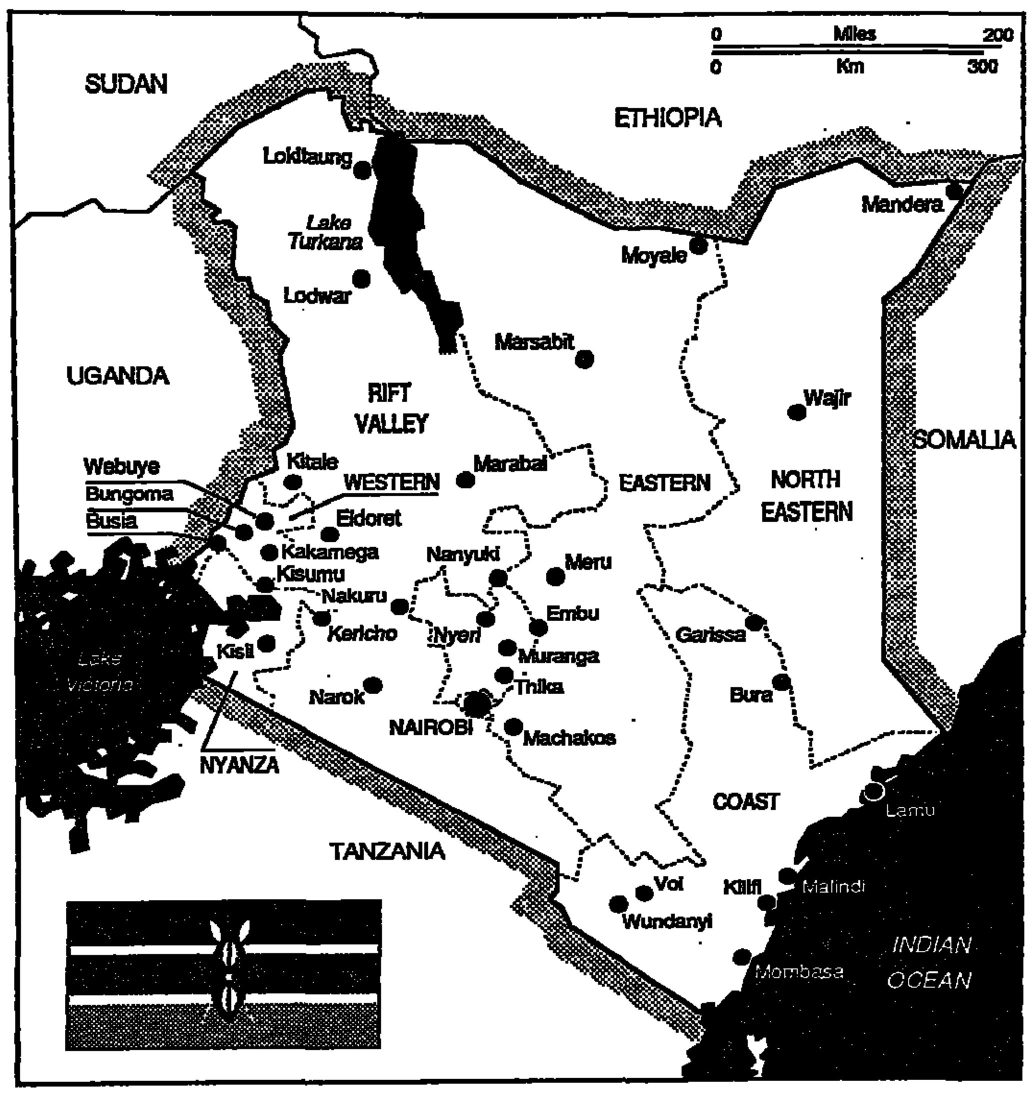
But with a third population programme presently being designed with substantial donor support and a concentration on working through district committees, population experts believe these problems can be easily ironed out.

With the growth rate slowed to 3.7 per cent in 1987 it is already clear that Kenya has turned the tide of its population explosion. But the question remains whether this can be consolidated into a significant reduction.

"I know of no other country in Africa which has such broad, multi-sector activities on the ground as Kenya. All the infrastructure and commitment is in place to turn this trend into a major demographic transition," says Mr Heyn.

Meanwhile, the economic implications of dealing with the existing population has presented Kenya with a formidable challenge.

Kenya's rapid population growth has become the major constraint to the country's development



Holiday retreat: Kilaguni Lodge, Tsavo East National Park in south-east Kenya

Close partner of the West

Continued from page 2
gle, a small piece of territory on the border which was given to the Kenyans to administer in 1938. The presence of an SPLA relief office in Nairobi which co-ordinates transportation of supplies into southern Sudan is clearly taken in Khartoum as intervention in their domestic affairs.

However, despite Sudanese claims to the contrary, there is little evidence to suggest Kenya is militarily supporting the rebels although the government maintains close contact with the leader of the SPLA, Dr John Garang.

Khartoum also suspects that if southern Sudan fell to the rebels Kenya would readily deal with the SPLA and resume its role as the major transport route and supplier into the region.

Ironically, there is only one neighbour with which relations can be said to be permanently friendly, Marxist Ethiopia. Separated by a vast expanse of desert there is little border trade between the two countries and a mutual respect for each other's sovereignity.

Relations with Uganda, which reached a nadir last December in several days of cross border shootings have improved, but not substantially.

Kenya is genuinely concerned by the links between President Museveni and Libya and has alleged the Libyans are involved in training political subversives in Uganda. This led to the closure of the Libyan Embassy in Nairobi last year.

More important is the strain created by Kenya's economic position as the leading trade outlet for land-locked Uganda through the port of Mombasa, and Uganda's hitherto dependence on Kenyan industrial exports.

Kenya resented Uganda's decision to increase its use of rail rather than road traffic; Uganda argued that the former was cheaper, but ran foul of Kenya's powerful transport lobby which has close links with leading politicians. Uganda for its part has long-term plans to send more goods through the Tanzanian port of Dar es Salaam.

This has caused some problems with Tanzania, increasingly regarded as challenging Kenya's hegemony in trade and transport. But since former President Julius Nyerere has taken a back seat role to President Ali Hassan Mwinyi, marking a shift from the socialist fervour Kenya distrusts towards a mixed economy, relations have improved dramatically.

On the northern border with Somalia, where territorial disputes have led to tension in the past, the situation remains potentially difficult. Although the Somali government's attentions have been diverted to internal problems with rebels in the north, and ambitions to create a Greater Somalia have faded, the recent outbreak of large scale organised poaching, which Kenya perceives as a serious threat to its internal security, have been laid at Somalia's door.

Several hundred Somalian resident in Kenya have been arrested or deported and the Somali Embassy in Nairobi recently issued a statement denying government involvement with the illicit trade.

Julian Ozanne

Julian Ozanne on the lucrative returns from tourism

Unrivalled attractions out of Africa

THE LORD Delamere bar and restaurant which fronts the mock-tudor Norfolk hotel in downtown Nairobi is never short of throngs of American and German tourists decked out in expensive designer khaki safari suits.

Built nearly 80 years ago, the inn still serves as a traditional starting point for the big game safari. But today game viewers leave for Kenya's parks in fleets of packed zebra striped mini-buses instead of on foot accompanied by scores of porters and gun bearers.

Hunting was banned in 1977 but tourists still flock to Kenya in pursuit of that nostalgic era when huge herds of wild animals moved across the African savannah and man was pitted against beast. Recent films like Out of Africa and White Mischief have also boosted the influx of tourists in search of the sentimental and romantic side of the British Empire and the divine decadence of the swinging 1920s aristocratic Happy Valley set.

The days when Edward, Prince of Wales and Lord Delamere and his cohorts would gallop up to the Norfolk with tales of danger, adventure and social gossip are never far away from the imagination of many of today's travellers.

But Kenya's romantic past and its wildlife are not the only attractions for holidaymakers. Brilliant tropical white sandy beaches fringed with coconut palms on the turquoise shoreline of the Indian Ocean, snow capped Mount Kenya and stunning lakes nestling in the escarpment of the Great Rift Valley, combined with well developed infrastructure and political stability have made Kenya an almost unparalleled tourist paradise in Africa.

At independence there were already almost 200,000 visitors a year and steady growth continued throughout the 1970s and early 1980s with only one hiccup, the 1982 abortive coup.

In the past five years the number of tourists has almost doubled from 372,000 in 1983 to 661,000 in 1987. And for the first time tourism has taken over from coffee as the country's number one foreign exchange earner. Foreign receipts from tourism increased 18 per cent from Ksh4.9bn in 1986 to Ksh5.8bn last year. However, it is unlikely that Kenya will be able to sustain that level of growth.

For the first time tourism has taken over from coffee as the number one foreign exchange earner. However, it is unlikely that Kenya will be able to sustain the present level of growth

Kenya's game parks are already seriously overcrowded and lodges overstretched. According to one tour operator wildlife in popular parks like Amboselli are harassed daily by mobs of tour vans and the fragile ecosystem and vegetation continually eroded.

"It is becoming difficult for animals, particularly the big cats, to pursue their instinctive life in a natural habitat. Over exposure to man easily leads to stress and confusion.

"Unless the government does something urgently to either restrict the numbers of visitors or close the parks down for part of the year we are going to be left with glorified zoos," he said.

Several parks are also subject to increasing encroachment by small farmers in search of desperately scarce arable land. Every year more and more land is ploughed up and domestic herds of cattle further invade wildlife areas resulting in over-grazing and occasional slaughter of wild animals by herdboys.

Furthermore, Kenya has been gripped this year by an unprecedented outbreak of organised poaching which has claimed the lives of about 100 elephants and the last five white rhinos left standing on public ground.

Poaching has been a recurrent problem in Kenya but the latest surge in activity is quickly developing into a national crisis.

In Tsavo national park clashes has broken out between wardens and security forces on the one hand, and poachers on the other; several have been killed on both sides. For the moment the poachers seem to be out-manoeuvring their opponents.

Wildlife experts believe senior government officials are colluding with poachers. The government for its part has sacked several junior civil servants in the Ministry of Tourism and Wildlife and ordered poachers to be shot on sight.

But worldwide demand for ivory and rhino horn remains strong and, in a country with vast tracks of uninhabited and hostile terrain, the obstacles to controlling the illicit trade are formidable.

At the coastal resorts, which account for about 60 per cent of the tourist trade, hotel occupancy fell by 8 per cent last year as German package tours, the largest single share of the market, continued to drop off in response to fears about Aids.

Kenya is pursuing other markets and some gains have been made in the UK. British visitors rose to 67,100 last year compared with 55,700 in 1986.

But attempts to break into Asia, particularly Japan, have have been hit by the absence of direct flights and cultural and language problems.

Kenyan tour operators remain confident that the industry can continue to expand by tapping the growing demand for adventure holidays and developing the largely unexplored and less frequented parts of western and northern Kenya. But there is clearly a limit to how much growth can be achieved in these less conventional tourist attractions.

Opening up new areas will require substantial government investment in infrastructure and services.

But the tourism industry, which is largely privately controlled, believes the government has been slow in responding to the need for a national development strategy and a coherent overseas marketing programme.

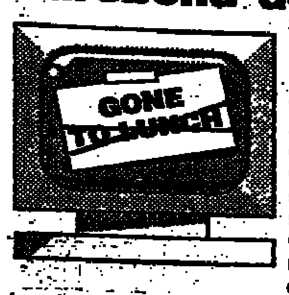
Animal attractions: herd of elephants at Aberdare National Park in central Kenya

FINANCIAL TIMES
COMPANIES & MARKETS
Monday December 12 1988

TAYLOR WOODROW
TEAMWORK IN DESIGN BUILD

INSIDE

Fear of job cuts on Eurobond desks ...



Veteran players of the London-based Eurobond market were clearly shaken by last week's redundancies at Morgan Grenfell but their stance was pragmatic and resigned. Over-capacity and rationalisation are concepts the Eurobond market has had to live with for quite sometime now. The Eurobond sector has been subjected to radical pruning over the last 18 months and it is clear that further cuts are inevitable. **Page 23**

... and the gilts market is worried as well

Morgan Grenfell's exit from the UK gilts market is expected to be followed by other securities houses. Unlike other retreats from gilts, it appears that Morgan quit not because it had got its book wrong, or that it had failed to secure a decent share of the market, but it simply decided the future outlook for the sector was "lousy." **Page 22**

ADB resorts to US for borrowing

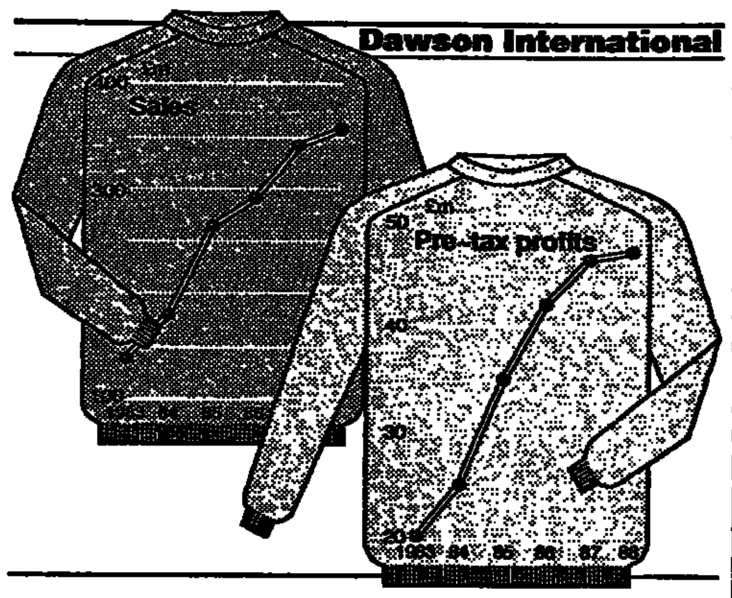
Subordinated borrowings by banks have been rare in the case of supranational development banks, but the African Development Bank last week issued two subordinated Yankee bonds, the first time it has raised subordinated debt in the US public markets. **Page 23**

Spotting national winners and losers in industries

Why do some countries become world leaders in particular industries but not in others? This perennial question has been addressed afresh by Professor Michael Porter (left), an industrial guru at the Harvard Business School. One of his conclusions is that strong domestic rivalry is a spur to industrial excellence. **Page 40**

Dawson draws on woollies to ride out a harsh winter

Alice Rawsthorne looks at the strategy behind a move into thermals for the Scottish luxury knitwear group



FOR YEARS the name of Dawson International has been associated with the luxurious cashmere and lambswool knitwear made in its Scottish mills. Last week Dawson staged its most ambitious acquisition to date in the somewhat less luxurious sphere of thermal underwear in the US.

Dawson, one of the most powerful players in the European knitting industry, is buying CPG, a group of 17 knitting mills, for $150m. The acquisition will augment its existing thermal underwear interests in the US and provide an *entrée* into the new area of sportswear.

It also offers an opportunity for Dawson to reduce its reliance on luxury knitwear at a time when its Scottish mills are beset by adverse exchange rates, rising raw material prices and a cashmere shortage. After the acquisition, Scotland's biggest textile group will glean half of its sales in the US.

Dawson first ventured into the US four years ago by buying Morgan, the leading player in the $150m thermal market. Dawson had drafted in Mr Philip Kemp, now head of US operations, from Guinness to identify US investments with comparable returns to its highly profitable Scottish textile interests.

One of the first priorities was to broaden Morgan's product range. Its brands have since been rationalised to concentrate on the eponymous Morgan name and the company has diversified into children's and lightweight thermals.

Dawson has also invested heavily in Morgan's mills. It has spent $24m on new finishing facilities, developing a special software package to improve operational efficiency and on a unique system to control shrinkage. Dawson has also introduced Arctex, a high performance fibre which recently won a new product award in Management Today magazine.

Morgan's sales have since doubled from $43m to $90m and its margins have risen from 27 to 33 per cent. Dawson now plans to apply the same strategy to CPG. The objective according to Mr Ronald Miller, chairman, is "to do everything for CPG that we have already done at Morgan."

Dawson has encountered problems at Morgan. Two years ago it bought Duofold, one of most prestigious underwear brands in the US. But it proved unexpectedly difficult to accommodate Duofold's short runs within Morgan high volume mills. The difficulties have since been resolved and Mr Miller maintains that without the Duofold experience, Dawson would have been "much more cautious" about buying as big a business as CPG.

Dawson has bought CPG from Reeves, a diversified industrial group which has been involved in two leveraged buy-outs during the 1980s. The financial pressure imposed by the buy-outs means that CPG needs new investment. Dawson intends to invest $20m over the next three years to modernise the mills and to install the systems developed at Morgan.

Dawson also plans to expand CPG, which currently concentrates on own-label merchandise, by introducing its own brand names. Duofold will be introduced as an upmarket sportswear brand, as will Arctex for the mass market. It is also considering introducing one of its Scottish names, probably Pringle, into leisurewear for the sedate sports participants that Mr Kemp calls the "armchair jocks."

The group also intends to strengthen its UK textile interests. In recent months the UK industry has been plunged into more competitive conditions.

An influx of low cost imports and the uncertain outlook for consumer spending has forced many of the major groups, such as Coats Viyella and Courtaulds to resort to rationalisation.

Dawson has already withdrawn from the activities which were most exposed to imports. This year it has completed the process of weeding out weaker areas by selling its West German handknitting business.

Its prestigious knitwear brands and specialist interests, such as fur fabrics, tend to be sheltered from overseas competition. But luxury knitwear has suffered from the impact of strong sterling on its important US market and by rising raw material prices.

Dawson has responded by concentrating on the most expensive, and less price sensitive, areas of knitwear. It has also started to work with designers such as Oscar de la Renta – darling of Mrs Nancy Reagan and her "ladies who lunch" set – in the US.

So far these initiatives have helped offset rising prices. Although it remains to be seen whether Dawson's customers will be willing to swallow another hefty increase this spring.

A parallel problem is that Dawson's fibre processing interests have suffered from a severe shortage of cashmere due to the disruption of the Chinese cashmere trade. The Chinese authorities recently announced new measures intended to restore order to the trade.

Dawson is now assessing the future of knitwear and fibres in a review conducted by Mr Martin Watt, recently recruited from the Harris Queensway retail group to head the division. The review will be completed in the New Year.

London's financial sector expects a no more than a modest rise in profits to £49m ($91m) or so this year. Dawson's shares have performed poorly and it has been embroiled in bid speculation. DMC, ambitious French textile group, has been bandied about as the latest potential predator.

So far the speculation has been groundless. Mr Miller purports to be unperturbed: "We keep a close watch on the share register. As for the rumours, we do our best to ignore them. What other choice do we have?"

Post-Reagan creed poses a dilemma for Bush leadership

Anthony Harris in Washington

THE REIGN of President Ronald Feelgood is ending in the oddest way – a wave of American adulation, or something pretty near it, for Mr Mikhail Gorbachev.

A cynic might conclude that the nation, having decided it cannot afford to fight the cold war, now finds it comfortable to believe that there is no need to. Believing what is comfortable is the post-Reagan creed, and that is going to be a central problem for his successor.

Mr George Bush won the election by refusing to talk about any of the uncomfortable choices the country now faces. It will take leadership to wean the voters onto a solid diet of reality, and it is still almost impossible to guess whether Mr Bush has the qualities needed.

His Cabinet appointments have been getting a rapturous press from journalists who seem to feel guilty about past ill manners.

Some of the new men do appear to be first class, notably the National Security Adviser, ex-General Brent Scowcroft. He is a strategic thinker whose writings suggest defence procurement may in future be based on an assessment of the job to be done, rather than looking like the Christmas stocking of a militaristic child. That could save a lot of money.

Some of the other key appointments are not so reassuring. One gets the feeling that they are men chosen not so much for what they can do for America, as for what they have done in the past for Mr Bush.

The rule used to be that favours to the President were rewarded with ambassadorships, but Mr Bush evidently wants to see his supporters every day.

Mr Nicholas Brady, an old personal friend, has been Secretary of the Treasury for three months now. He has said nothing of significance since his confirmation hearings, when he evaded all meaningful questions.

Mr James Baker is essentially a tactical player. He would make a superb Foreign Secretary for a lesser power, which requires above all a skilled negotiator – but the US is supposed to set the tone.

Governor Sununu is a forceful man, but has no Washington experience: not the obvious choice to play the Baker role with a hostile Congress.

Mr Michael Boskin, chief economic adviser, is the author of the flexible freeze plan to balance the budget. He does not seem to have convinced many fellow-professionals that it is feasible.

Freezing the defence budget is likely to be the job of ex-Senator John Tower, who campaigned hard for Mr Bush. He is a personification of the military-industrial complex. Legend says that poachers make good gamekeepers, but Mr Bush's advisers do not seem convinced that Mr Tower is that kind of poacher. Mr Bush still seems determined to have him. Is this is the masterly leadership which some of the commentators talk about?

Yet leadership is likely to be the key to the US budget dilemma. This is clear from an illuminating little book on US budget-making* which has just appeared. It has the blessing of ex-President Gerald Ford, and the staff-work of a quality think-tank, the Urban Institute, whose chairperson, Ms Carla Hills, is to be the new US Trade Representative.

Two points stand out as landmarks in this study.

First, the machinery of US budget-making is not well designed for reaching sensible decisions; it is a shifting armistice in the struggle for power which was established by the US Constitution.

Second, any attempt to use this machinery for sensible purposes is badly hampered by the illusions President Reagan encouraged in the voters, who see nothing inconsistent in demanding more programmes, smaller deficits, and no tax increases.

Part of the present mess dates back to two discredited men, President Nixon and Representative Wilbur Mills, who exercised huge power as Chairman of the House Ways and Means Committee until he was caught most embarrassingly with an exotic dancer.

Mr Nixon had been making ruthless use of the power of impoundment – a refusal to spend all the money voted. Presidents back to George Washington had used this to enforce sensible economies, but Mr Nixon sought to change the whole pattern of Federal spending. Mr Mills simply blocked things by refusing to put proposals he disliked to the vote.

Congress decided in 1974 to reform its own budget procedures. Many of the changes looked ideal.

Proper costing was enforced for each measure, and for the Budget as a whole, with a specialist department, the Congressional Budget Office (one of whose former chiefs is co-author of this book) to provide the numbers. It set up cash allocations for each spending committee, and a reconciliation procedure to force them to live within their means. It also determined to trim the powers of the White House and of the major committee chairmen.

These good intentions produced some sad results. Partly by coincidence, the new process tended to inflate spending. It was introduced at a time when it was especially hard to assemble a majority in either house: as more committees had to be placated, more pet projects had to be financed. The President was left with no real power to block such projects.

Mr Nixon signed this bill a week before he resigned.

Thus, the US Army, for example, is now paying for the development of a truck it does not want, and the Navy is getting a carrier force it never requested.

In an effort to check such nonsense, more and more bells and whistles have been bolted onto the machinery. It is now as arcane as the Schleswig-Holstein question, and so cumbersome that it takes up nearly half the time of the legislature.

All the same, it failed to produce the realistic decisions intended because the legislators dared not talk arithmetic to their voters.

In the end, Congress invented a robot to take the hard decisions. It is called the Gramm-Rudman-Hollings Act (GRH), which Senator Warren Rudman was frank enough to describe as "a bad idea whose time has come."

GRH has probably done some good; but the returns have diminished rapidly, as the authors recognise and the markets clearly agree.

Its purpose has been evaded by such devices as rosy scenarios, asset sales, and even by shifting military-pay-say into the next financial year; and when it still proved uncomfortable, its timetable was stretched out.

The machinery can be improved, and the authors have some modest proposals; but in the end it still needs an able and determined driver.

Priorities may be agreed by consensus, but they must then be made to stick and the voters must be told bluntly about ends and means. Which brings us back to the so far unanswerable question about Mr Bush.

* *Broken Purse Strings, by Rudolph Penner and Alan Abramson. Urban Institute Press, 2100 M St NW, Washington DC 20037*

Economic Notebook

Learning lessons of history

WHEN THE history of the Delors Committee is written, it may be that giving a new impetus to regional policy will be one of its most important contributions to the development of the European Community.

For the committee's preliminary report, which will be discussed in Basle tomorrow, makes clear that a dash for monetary union could spell disaster for Europe's outlying regions.

The confidential report, which was sent to member central banks last week, is only a draft document and could change substantially by next April. That is when the 17-strong committee of EC central bank governors and four outside experts under the chairmanship of Mr Jacques Delors, EC Commission President, is due to present its findings to EC finance ministers.

But it is already clear that the committee has been far more concerned with the strains monetary union would impose on the Community in its present imperfect phase of economic integration than with drawing up the details of a central bank or the details of a new European currency.

Some of the committee's most significant work has involved the study of earlier attempts to create economic and monetary unions in Europe. In particular, some members see lessons for today in the 19th-century unifications of Italy and Germany.

The unification of Italy between 1860 and 1870 under the leadership of the small northern kingdom of Piedmont was a political, military and diplomatic *tour de force*.

But from the perspective of the late 20th century, the subsequent imposition of economic and monetary union on seven separate states and four smaller political units, all heavily protected and at different stages of economic development, appears a disaster.

After unification, the ramshackle economies of Naples and Sicily went into a steep decline relative to the rest of the country from which they still have not recovered. The south had early experience of such modern day problems as de-industrialisation and a brain drain which robbed the region of talented labour.

The 19th-century unification of Germany was a very different story. Economic integration began some 55 years before economic and monetary union was achieved when the north German kingdom of Prussia started a customs union known as the Zollverein in its own territories in 1818. This was gradually extended to neighbouring regions.

The development of railways and industry continued the integration process. But Germany did not introduce a common currency and central bank until 1876, five years after political union in 1871.

Such lessons of history have not been lost on the British Government, which opposes moves at present to create a European central bank and common currency. Mr Nigel Lawson, UK Chancellor, has cited the gradualist German example as the way in which economic and monetary union should be pursued.

In recent weeks, Dr Helmut Schlesinger, the Bundesbank's deputy governor, and Mr Maurice Doyle, governor of the central bank of Ireland, have warned of regional dangers from a rapid move to monetary union before other aspects of economic union in the EC have been put in place.

Dr Schlesinger warned that the approach of the single internal market in 1992 could result in "a further relative decline in already structurally weak regions and a deterioration in the trade balances of less competitive members of the European Monetary System." He therefore urged that exchange rate changes, which would be banned in a monetary union, should be retained to help weaker EMS countries adjust their economies.

In Mr Doyle's view, economic and monetary union can only be achieved when EC member states have reached a "broadly similar stage of economic development" and are committed to similar policies. To this end, he says the EC must tackle the issue of regional imbalances directly. Otherwise a peripheral country such as Ireland could suffer disastrous depopulation and a loss of productive capacity.

But Mr Doyle does not want the old 1970s-style EC regional policy, where Brussels threw money at disadvantaged regions to bring incomes per head nearer the EC average.

Instead he wants the EC to think of ways to "equalise the conditions needed for production of goods and services." For example, better infrastructure such as a car ferry service between Ireland and Britain at hourly or three-hourly intervals "would transform the locational costs and disadvantages of the Irish economy," he said.

Such a ferry service may be only a dream. But the idea shows that the Delors Committee is providing an unexpectedly useful service in turning the EC's central bank governors into regional experts, highlighting the opportunities and risks of economic and monetary integration.

Peter Norman

THIS WEEK

THE SIZE of the US trade deficit and the inflation outlook for the UK are likely to dominate financial markets next week.

Figures for US merchandise trade in October are published on Wednesday. The consensus of analysts' forecasts compiled by MMS International, financial research company, is for a deficit of $9bn on a customs imports basis.

On the same day is a meeting of the Federal Open Market Committee (FOMC), the US Federal Reserve's policy-making committee. Analysts will be looking for evidence that the Fed will tighten policy or even raise discount rates.

Also on Wednesday are industrial production and capacity utilisation figures for November.

A pointer to US inflation trends will come on Friday when the producer price index for November is published. A rise of 0.3 per cent in factory-gate prices is expected.

In the UK, there is a stream of economic statistics culminating in the retail price index for November on Friday. The consensus is for a rise 0.5 per cent, leaving the annual inflation rate unchanged from October's 6.4 per cent.

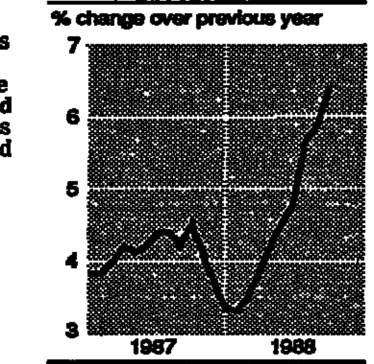
A guide to future inflationary pressures will come on Thursday when average earnings figures for October are published.

In Japan, the authorities are trembling in anticipation of the impact of today's announcement of November customs cleared trade figures. The 10-day and 20-day figures have already signalled that a big rise in the trade surplus is in prospect.

The West German Bundesbank council meets on Thursday to set money supply targets for 1989. Currently M3, the broad measure, is overshooting its 3 to 6 per cent target range but no big changes in the range are expected for next year.

RPI

% change over previous year



French inflation features on Wednesday when the consumer price index for November is released.

Other events and statistics this week (with MMS International consensus in brackets) include:

Today European Community finance ministers meet in Brussels. Central bankers meet at the Bank for International Settlements (BIS) in Basle. UK producer prices in November (fall of 0.4 per cent in input prices, 0.4 per cent rise in output prices).

Tomorrow BIS meeting continues with session of Delors committee. West German Bundesbank announces details on of the latest batch of securities repurchase agreements. US retail sales in November (0.5 per cent rise).

Wednesday UK output of production industries in October (0.9 per cent rise) US manufacturing and trade inventories and sales for October.

Thursday UK unemployment in November (fall of 35,000).

Friday US minutes of November 1 meeting of FOMC, housing starts and building permits for November. UK Public Sector Borrowing Requirement (-£500m). Japan preliminary money supply growth in November, household survey for October.

UK COMPANY NEWS

Bank intervenes as Bestwood's ex-chairman tries to regain post

By Fiona Thompson

THE BANK OF ENGLAND, in a most unusual move, has intervened in Mr Tony Cole's attempt to regain his position as chairman of Bestwood, the property and industrial holding group.

The Bank agreed that the Bestwood board could disclose to shareholders the contents of a letter it sent to Bestwood expressing concern about Mr Cole.

The letter said: "We should advise you that the Bank has serious doubts regarding the suitability of Mr Cole for a position as a director, controller or manager of an authorised institution."

For the Bank to allow the disclosure is virtually unprecedented. Under the Banking Act, disclosure of such information is normally prohibited, however a Bank official said that while such action was not often taken, it was action the Bank was perfectly entitled to take under the Act.

A copy of the Bank's statement was sent to all Bestwood shareholders at the weekend, as part of a circular informing them that an extraordinary general meeting has been called for March next year. The egm, requisitioned by a nominee for certain Swiss interests, will consider two resolutions, that Mr Cole be appointed a director of Bestwood and that Mr Anthony Holmes be removed from office as a director of the company.

Mr Holmes took over as chairman following Mr Cole's resignation in July this year. At that time Mr Cole said Bestwood would benefit from a different style of management. He built the company up by a series of acquisitions but the stock market crash caused it severe losses and the company then pulled out of securities trading.

Mr Holmes is strongly resisting Mr Coles's comeback. In the circular to shareholders he points out that Mr Cole is facing a writ for £1.7m relating to shares purchases and says Mr Cole is seeking re-election as a resolution to his problems of potential bankruptcy.

Mr Cole has a 10 per cent stake in Bestwood. Mr Holmes and his supporters claim to account for 60 per cent.

Kelt's offer for Carless gains 71% acceptance

By Fiona Thompson

KELT ENERGY yesterday declared its £208m offer for fellow oil independent Carless unconditional, after receiving 71 per cent acceptances.

This followed a second reduction of the level at which Kelt could declare its bid unconditional.

On Friday Kelt announced it was reducing the level from 90 per cent to 75 per cent. After discussions later that night, agreement was reached with American Express to waive the 75 per cent limit and accept the 71 per cent.

American Express is financing the bid via a £199.2m loan facility repayable over a year in two tranches. Part of the loan agreement required Kelt to gain control of 90 per cent of Carless or such lower limit as might be agreed.

Mr Alasdair Locke, Kelt chief executive officer and deputy chairman, said yesterday "Naturally we are pleased to have won the day."

Mr Locke said Kelt would be happy to talk with Trafalgar House "in due course." Trafalgar House, the UK shipping, property and construction group, entered into the bitter bid battle last Thursday when it announced it had acquired a 10.4 per cent stake and was considering disposing of its oil and gas interests to Carless in return for a mixture of cash and shares.

Mr Ian Clubb, Carless's chief executive, said yesterday he was surprised at American Express taking the risk. "It is a very bold bank. They will be lucky to get their money back."

Aurora expected to accept takeover bid from ANI

By Ray Bashford

AURORA, the Sheffield-based engineering group, is expected this week to recommend acceptance of the takeover offer by Australian National Industries.

The announcement of the recommendation is expected to be accompanied by board changes which will see the departure of non-executive directors and their replacement with members of the board from ANI, Australia's biggest engineering group.

The Australian group last week left the Aurora board with little alternative to agreement to the terms of the offer when it snapped up 9.7 per cent of the capital to lift its holding to 59.4 per cent. Included in this figure is acceptances to the bid, which values the company at £133.1m, for 8.7 per cent of the capital.

The Aurora board rejected the 148.5p offer and also the loan note alternatative and major institutions holding 22 per cent of the capital agreed with the board's recommendation. It is understood that the board was pushing for a cash offer of between 158p and 160p a share.

ANI declared its offer unconditional last Friday. Aurora shares ended the week at 148p - 0.5p below the cash bid.

The two major shareholders are M&G and Investors in Industry (3i). They are expected to follow the board's recommendation to accept the offer despite lingering reservations about the terms.

M&G and 3i were also pushing for a price in that region before Electra sold its 19 per cent stake to ANI which gave the Australian group a very strong hold over of the company with a 41 per cent stake.

Few small shareholders have accepted the loan note alternative, although the large shareholders might see its attraction as a means of lowering tax charges on profits from the sale of their holdings.

Both institutions are sitting on large profits, having acquired their shares for 10p each when Aurora was reconstructed in 1983.

Court decision dilutes W. Kent Water holdings

By Andrew Hill

CONTROVERSIAL shareholdings in West Kent Water Company will be diluted following a High Court decision on voting rights in the statutory company.

Southern Water Authority and Associated Insurance Pension Fund, an investment vehicle for Mr Duncan Saville, an Australian businessman, which together hold 44.9 per cent of voting stock in the statutory water company, could see their joint stake reduced by as much as 5 per cent by last Friday's court decision.

West Kent is the subject of an agreed bid from SAUR Water Services, a subsidiary of Bouygues, the French construction and service company.

The High Court declared that 2.8 per cent preference shares in West Kent issued before 1945 should carry voting rights, while those issued since 1945 should not.

The decision also affects the detail of the SAUR offer.

It still values West Kent at £5.23m, but SAUR will pay £211.98 per £10 nominal of all categories of voting stock, and £7 for each £10 nominal of non-voting stock.

The legality of Southern's stakes in water companies was challenged by the companies last week in a judicial review.

Tory committee calls for block on Plessey bid

By Hugo Dixon

MR MICHAEL Grylls, chairman of the Conservative back-bench trade and industry committee, has written to Sir Gordon Borrie, the director general of the Office of Fair Trading, asking him to block GEC-Siemens' £1.7bn bid for Plessey, the electronics company.

Mr Grylls, who held his present position at the time of GEC's first bid for Plessey in 1985, argues in the letter – sent last Saturday – that there has been no material change since the Monopolies and Mergers Commission blocked the first bid. The OFT should therefore not release GEC from its commitment, made last year, not to buy more than 15 per cent of Plessey's shares.

Mr Grylls argues that a merger would create a monopoly in defence electronics, harming the taxpayer and small businesses. The prospective benefits of greater economies of scale would be far outweighed by the detriment to competition.

Mr Grylls, MP for north-west Surrey, also contends that Plessey has its own plans to improve its competitive position by international alliances in the defence, telecommunications and micro-electronics fields. These have been stalled by the bid.

Syltone improves to £854,000

Strong performances by core businesses helped Syltone, Bradford-based specialist engineer, to raise interim taxable profits by £129,000 to £854,000. Turnover for the six months to end-September improved from £12.48m to £13.6m.

After tax of £316,000 (£285,000) earnings per share came out at 13.6p (11p). The interim dividend is being maintained at 4p.

Mr John Clegg, chairman, said that Drum Engineering enjoyed a significant contribution from its well-established tipping gear operation and Bradley Doublelock was at near full capacity throughout the period.

Iceland continues its war of words with Bejam

By Fiona Thompson and Philip Coggan

ICELAND Frozen Foods has continued its war of words with fellow retailer Bejam, for which it is making a £240m bid.

Mr Malcolm Walker, chairman of Iceland, has criticised Bejam for not making a profit forecast in its latest defence document.

The document, issued by Bejam on Friday night, forecasts a 19 per cent dividend increase to 6.25p for the year to July 1 1989, but does not forecast profits.

Mr Walker said Iceland found the omission "significant." Bejam "has given shareholders nothing to bite on and a great deal more to worry about."

Bejam's shares fell 2p to 150p on Friday. Iceland's offer is worth 190p.

Laporte £5.7m expansion

By Clay Harris

LAPORTE INDUSTRIES, speciality chemicals group, is to buy Terochem Laboratories, a Canadian-based manufacturer of organic intermediates. The C$12.5m (£5.7m) deal will give Laporte its first manufacturing base outside the UK

BOARD MEETINGS

TODAY

Interims- Celestion Inds, Compco, Dowty, FKB, Havelock Europa, Palmerston, Priest (Benjamin), Racal Electronics, Racal Telecom, Russell (Alexander), SKS, Salteland, Saltire Insurance Inv, Scottish & Newcastle, Tinsley (Eliza), Westminster & Country Properties, Whitecroft, Wood (SW).

Finals- Brown Shipley, Carlton Communications, Durban Roodeport, East Rand Property, Great Western Resources, Hardys & Hansons, Holmes & Merchant, UK Land, Wolverhampton & Dudley Breweries.

FUTURE DATES

Interims-

Border TV	Dec. 13
Braithwaite	Dec. 20
Callyns	Dec. 14
Graig Shipping	Dec. 15
Southend Property	Dec. 13
Tiphook	Dec. 20

Whessoe recovers

Second half profits of £2.79m enabled the Whessoe engineering group to make £3.55m pre-tax for the full year ended September 24 1988, compared to the loss of £4.83m last time.

Earnings worked through at 17.5p (loss 12.7p) and the final dividend is 3p for a total of 4p (1p).

Mr G. Duncan, chairman, said there were better performances in all main activities with the exception of Whessoe Heavy Engineering.

At the year-end the group's total gross order book value stood at £194m.

Hestair outlook good

In view of the recent weakness of employment agency shares, Hestair, the consumer products, vehicles and employment agency group has stated that October and November produced record trading profits in the UK.

In the US, results for the past four months were extremely good and the outlook remains good, it said.

NEWS IN BRIEF

Bristol Evening Post reports £1m advance to £3.97m at interim stage

A £1m advance to £3.97m in pre-tax profit is announced by Bristol Evening Post for the half-year ended September 30.

With earnings rising to 9.91p (7.49p) the interim dividend is lifted to 3.5p (3p).

Turnover rose to £28.54m (£25.93m). Newspaper publishing accounted for £17.18m (£14.84m) and contributed £2.55m (£1.69m) to profits. Retail improved by 11.5 per cent, transport 17 per cent, and property rental 20 per cent.

Mr Andrew Breach, chairman, said satisfactory full-year results were expected. Newspaper activities were benefiting from a buoyant local economy leading to demand for advertising. There were, however, signs that some advertising categories could decline.

AB Engineering up

Further good progress was achieved by Associated British Engineering during the half year ended September 30 with profits for the period rising from £23,000 to £352,000 at the pre-tax level. Turnover rose by £3m to £15.09m.

Directors said in the absence of a downturn in the UK economy they expected the recovery in the group's fortunes to continue. They will consider payment of an ordinary dividend at the year-end.

Office & Electronic

Office and Electronic Machines reported an increased pre-tax loss for the first half of 1988 of £738,000, against £42,000. During the period the company underwent a change in management following its worst year with pre-tax losses of £4.02m.

Turnover fell 21 per cent to £10.02m (£12.73m). The loss per share came out at 12.08p (0.07p). The company is returning to the dividend list with a nominal payment of 0.01p to maintain trustee status.

In the first half operating loss increased to £711,000 (£14,000). There was an exceptional profit of £76,000 this time but the net interest charge increased to £103,000 (£28,000).

A loss for the full year was still expected.

Hawtin up to £1.3m

A continuation of satisfactory trading by each division enabled Hawtin, distributor of protective clothing and safety equipment, bricks and tiles and chemists' sundries, to lift its profits from £431,000 to £1.3m pre-tax for the year to end-September.

Turnover advanced from £21.76m to £24.1m. Earnings amounted to 1.51p (0.36p) and the final dividend is lifted from 0.375p to 0.5p.

Since the year-end trading activity had shown a further advance and directors said the trend was continuing.

Airsprung improves

Airsprung Group, furniture manufacturer which came to the USM in 1986, raised its profits by £196,000 to £1.26m pre-tax for the six months ended September 30.

Directors said the improvement was achieved despite the initial costs of introducing combustion modified foam to meet fire retardent regulations.

Turnover grew to £15.74m (£13.29m) and earnings per share improved to 8.39p (7.33p). The interim dividend is being stepped up to 2.32p (2.13p adjusted).

During the period two properties were acquired for £1m.

Phoenix Timber

Phoenix Timber Group, reported continued growth in the six months to end-September with pre-tax profits up from £831,000 to £995,000.

Mr Peter Quinn, chairman, said the result was achieved despite an interest charge more than doubled to £714,000.

Turnover totalled £30.5m (£21.1m) and tax took £52,000 (£51,000). The interim dividend of 1.1p (1p) came from earnings per share of 6.7p (6.1p).

BLP expands in US via £5.4m purchase

By David Waller

BLP Group, manufacturer of real wood laminates and associated products which joined the USM in August, is buying a North American competitor for a maximum of $10m (£5.43m) in cash and shares and making a 2-for-7 underwritten rights issue to raise a net £3.2m.

It is acquiring the Woodtape Group, a manufacturer and distributor of real wood veneer and synthetic edgebanding with operations in the US and Canada. In 1987, the group made a pre-tax profit of $997,000 (£541,000) on turnover of $13.56m. For the 10 months to end-October profit was $1.08m.

Initial consideration will be met by the issue of 1.35m shares at 130p and payment of $5.17m (£2.81m) cash. The rights issue is priced at 93p a share and will be used to pay the cash element of the consideration; it is being supported with the forecast that BLP will make a pre-tax profit of not less than £1.9m for 1988, and the directors are recommending a final dividend of 2.35p, making a total of 3.6p, a 20 per cent increase.

Carr's Milling

Poor market prices for its chicken, meat and egg interests due to national over supply affected the results of Carr's Milling Industries in the year to September 3.

Lower pre-tax profits of £1.88m against £2.09m were achieved on sales to external customers of £73.01m (£67.08m).

Trading in the current year was ahead of last year, however,and prospects were encouraging, directors said. Accordingly, they are proposing a final dividend of 5.75p (5.5p) for a 7.5p (7.25p) total. Earnings fell to 20.8p (29.6p) per share.

Profits from flour milling and baking rose significantly through lower operating costs. And although competition was fierce the group's agricultural interests also performed well, directors said.

INTERNATIONAL CAPITAL MARKETS

Suez in Générale share swap deal

By Tim Dickson and David Buchan in Brussels

FURTHER evidence of the changes taking place at Société Générale de Belgique, Belgium's powerful holding company, will be provided today with the announcement of a complex share swap between two of the group's leading shareholders and the sale for BFr10.2bn ($280m) of its 5.2 per cent stake in Alcatel, the European telecommunications concern.

Details of the share transaction — whereby Compagnie Financière de Suez, the French investment bank, will cede part of its majority stake in La Générale to its Belgian and Luxembourg allies led by the insurance company Groupe AG — are due to be announced at separate press conferences in Brussels and Paris this morning.

It is understood, however, that the deal will not substantially alter the overall balance of power and is designed to leave Suez, which earlier this year defeated Mr Carlo De Benedetti's bold takeover bid for La Générale, still firmly in command of the diversified Belgian group with more than 50 per cent of the shares.

The sale of La Générale's Alcatel stake, which will be formally disclosed today along with the company's first estimates of its 1988 results, is partly designed to raise cash and partly to re-direct its interest in the telecommunications sector through Alcatel's parent, the French group Compagnie Générale d'Electricité (CGE).

CGE is the leading shareholder of Alcatel, a company formed in 1986 through the merger of the European telecommunications activities of CGE and ITT of the US. Société Générale de Belgique at the time took a much heralded stake of 5.2 per cent via its subsidiary Belgatel.

Under the deal to be announced today Belgatel will sell its stake jointly to CGE and ITT and reinvest part of the proceeds (an estimated FFr350m) by buying 900,000 shares in CGE, thereby raising its stake in the French group from 2.8 to 4.18 per cent. The close links between the two groups are also reflected by the fact that CGE at the last count held a 3.3 per cent stake in La Générale.

● Gechem, the troubled Belgian chemicals group controlled by La Générale, has moved to head off a threatened revolt by minority shareholders angry at the terms of its recent rescue plan.

Intense stock market activity in the company's shares over the last few days prompted speculation that a group of investors was building a 25 per cent blocking minority, possibly aimed at frustrating La Générale's plans.

Over the weekend, however, Gechem put out a statement saying that it was doubling the size of the capital increase open to other shareholders to BFr2bn. La Générale would still subscribe the lion's share of the new money, or BFr6.3bn.

Citicorp purchases insolvent Florida bank

CITICORP has acquired an insolvent Florida bank, giving the biggest US bank company its first foothold in the state's lucrative commercial banking market, Reuter reports from Tallahassee.

State bank regulators closed the privately held Caribank of Dania on Friday and named the Federal Deposit Insurance Corp (FDIC) as receiver, the Florida Comptroller's Office said.

Citicorp then acquired Caribank, which operates 14 branches and has assets of $535m. Caribank, which had operated since last year under FDIC restrictions, was likely to reopen today as a newly chartered national bank under the Citicorp name, officials said.

The acquisition marks Citicorp's first entry into commercial banking in Florida. The New York-based bank also owns Citicorp Savings of Florida, a savings and loan association with $3bn in assets, but it has been barred from providing many of its parent company's financial services.

Florida law allows only banks based in other south-eastern states to buy healthy Florida banks. Money-centre banks such as Citicorp have generally been excluded, except in the case of failing institutions with at least $500m in assets where federal regulators have intervened.

The Comptroller's Office said Caribank, which was controlled by Mr J.J. Gonzalez Gorrondona, a Venezuelan businessman, became insolvent largely because of bad property loans.

The bank lost more than $40m in the first nine months of the year and has a negative net worth of $15m. It has branches in Dade, Broward and Palm Beach counties.

● The Federal Home Loan Bank Board (FHLBB) has liquidated an insolvent thrift in Denver, Colorado, with $1.7bn in deposits, one of the biggest such liquidations in recent years.

The thrift was Silverado Banking, Savings and Loan Association, which faced difficulties due to unsafe and unsound business practices including bad property loans, the FHLBB said.

Macmillan sells Michie division for $226.5m

By Roderick Oram in New York

MACMILLAN, the US publisher, has sold its Michie tax codes division for $226.5m, bringing to nearly $630m the money it has raised from disposals since Mr Robert Maxwell, the UK publisher, won control last month for $2.6bn.

The buyer is Mead, a big US paper and packaging company whose Mead Data Central operation is one of the largest full text data base services in the world. Michie, the leading compiler and publisher of state legal codes in the US, is a natural fit for the service.

The latest Macmillan disposal surprised some analysts since Michie is a fast growing, highly profitable operation typical of the information services business. Wall Street had expected Mr Maxwell to empahsise this business as a compliment to his recently acquired Official Airline Guide, rather than to concentrate on lower-margin book publishing.

Macmillan previously sold two book direct marketing operations and two publishers of controlled circulation trade magazines.

The buyer was Kohlberg Kravis Roberts, the leveraged buy-out specialist which Mr Maxwell outbid for control of Macmillan.

● Global Analysis Systems, the research consultancy owned by Mr Maxwell, said the New York Stock Exchange has approved the trading of an option and a futures contract on its 100-share International Equity Index, Nikki Tait adds.

Global Analysis Systems is in the process of becoming a subsidiary of London & Bishopsgate Holdings, a private fund management business owned principally by Mr Maxwell and Lord Donoughue.

The GAS 100 International Equity Index is designed to track the Morgan Stanley/Capital International EAFE index. It is made up of 100 non-US blue-chip stocks from 11 different markets.

Following the agreement with the New York Stock Exchange, regulatory approvals will be sought and GAS says it expects the option and futures contract to start trading in mid-1989.

Texaco unveils staff stock plan

TEXACO of the US has launched an employee stock ownership plan (Esop) which is borrowing $500m to buy a new issue of convertible preferred stock from the company, Reuter reports from New York.

Oil analysts said the issue would strengthen the company's defences against a hostile raider or proxy battle. The announcement came amid speculation that Mr Carl Icahn, with a 14.8 per cent stake, may be considering a new bid for the oil major with another unnamed investor.

Mr Mark Gilman of Robert Fleming said: "The primary purpose of this plan is to create a vehicle for stock to end up in friendly hands."

The stock, which represents more than 8m voting shares, will ultimately raise employees' stake in Texaco to 8.5 per cent from 5 per cent currently.

Mr James Kinnear, chief executive, said: "Adoption of the Esop feature, which has been under study for some time, enables employees to increase their ownership in the company and further align their interests with those of our shareholders."

Chase Manhattan pulls out of Saudi venture

By Finn Barre in Riyadh

CHASE MANHATTAN Bank of the US is ending its Saudi venture after gaining permission from the Saudi Arabian Monetary Agency (Sama), the quasi-central bank, to sell its remaining 15 per cent stake in Saudi Investment Bank (Saib).

Details of the pull-out have yet to be worked out. Options include selling its share to local companies or banks, to existing shareholders, or offering the stock in a flotation to the public.

When Saib, the kingdom's smallest bank, was established, Chase held 20 per cent. It sold 5 per cent to National Industrialisation Company, which also bought the 5 per cent holding of West Germany's Commerzbank.

Chase will become the third bank to withdraw from the kingdom in the past two years, following Commerzbank as well as Banque du Liban de Outre Mer, which sold its 10 per cent of United Saudi Commercial Bank to new shareholders.

Chase was the dominant partner and held a management contract until last year. Several local bankers say privately that Sama should have blocked the sale. They argue that Chase entered the Saudi market during the lucrative oil boom and is now pulling out when profits are low.

Noco rejects Saga offer to acquire 30% holding

By Karen Fossli in Oslo

NORWEGIAN OIL Consortium (Noco), a small independent company with stakes in four producing Norwegian oil and gas fields, has rejected an offer by Saga Petroleum, Norway's largest oil independent, to acquire a 30 per cent stake for an undisclosed sum.

Last month, Saga offered to buy the 20 per cent stake owned by Aker, the Norwegian industrial concern, and the 5 per cent stakes owned by Wilhelm Wilhelmsen and Kosmos, the shipping companies. Although no purchase price was given, Aker said it would stand to gain NKr70m ($10.9m) from the deal.

Noco said the close co-operation and continuity among its current partners was the reason for the rejection of Saga's offer. The rejection will come as a blow to the highly-indebted Saga which was seeking to buy stakes in companies which have oil and gas fields in production. The acquisition would have provided immediate petroleum revenue to add to Saga's income.

It would have also allowed Saga economical use of production and process facilities in the Valhall field for an oil discovery nearby. To develop this field, Saga will be forced to pay maximum usage tariffs which could undermine the viability of the new development.

Small advance at Euromoney

EUROMONEY Publications, the Luxembourg listed magazine company, lifted pre-tax profits 2 per cent to £6.65m ($12.3m) in the year to September as turnover rose 9 per cent to £28.4m, writes Our Financial Staff.

Net earnings per share were 21.4p compared with 20.7p. The company is paying a final dividend of 9p to make a 14p total against 13.75p. It is 78.6 per cent owned by Associated Newspaper Holdings of the UK.

Veba chairman to quit Krupp board

By David Goodhart in Bonn

MR RUDOLPH von Bennigsen-Foerder, chairman of Veba, the West German energy conglomerate, will leave the supervisory board of Fried. Krupp, the troubled heavy industrial group, at the end of the year.

His decision, for which no official explanation was given, adds a further twist to the speculation about who will succeed Mr Berthold Beitz, the current Krupp chairman, who has said he will stand down next June.

Mr von Bennigsen-Foerder had been seen as one of the possible successors to Mr Beitz, but his exit from the board presumably rules that out.

One reason which is being suggested for the Veba chairman's surprise decision is his disappointment that Mr Beitz is staying on as head of the foundation which owns 75 per cent of Krupp.

Other possible candidates for Mr Beitz's chair include Mr Günter Vogelsang, currently a board member of several key companies including Thyssen and Deutsche Bank, Mr Friedel Neuber, chairman of the Westdeutschen regional bank, and Mr Wilhelm Scheider, currently the Krupp chief executive.However, Mr Scheider may be vetoed by Mr Beitz, with whom he has clashed many times in recent years.

US MONEY AND CREDIT

Vigilantes' power held in check

"WHERE ARE the bond market vigilantes when we need them?" Mr Bob Giordano, chief economist at Goldman Sachs, asked this question about a month ago, as long-term US interest rates fell below 8¾ per cent for the first time since post-Black Monday fears of an immediate recession evaporated last April.

What made the autumn rally so surprising and potentially disturbing to people like Mr Giordano was that it seemed to belie the credo that had become the most important justification for fixed-interest investment since the late 1970s.

Between 1979 and 1981, bond market investors had finally learned the lessons of the inflationary 1970s. Never again would they allow the governments of leading capitalist countries to inflate their way out of politico-economic troubles.

At the first hint of inflationary policies, the world's bond markets would rapidly drive up long-term interest rates, precipitating or at least threatening a recession. This would either counteract or deter the inflationary proclivities of politicians and their electors.

As 1988 draws towards a close and strategic investors start to turn their attention towards the next decade, it may be time to question the bond market vigilantes' awesome anti-inflationary power.

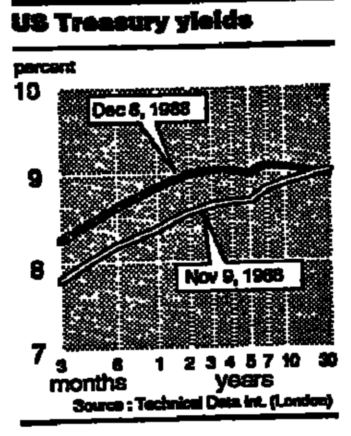
The first clear hint of this occurred a few months ago, during the autumn bond rally which culminated a few days before last month's presidential election.

This rally, which took the 30-year bond yield to a low of 8.74 per cent on November 3, coincided not only with what has now been revealed as a significant acceleration in the US economy's growth rate and a new build-up of inflationary pressures after the drought-induced fall of the summer.

More importantly, the bond market rose in tandem with an election campaign which clearly demonstrated that most American politicians no longer care a damn about the danger of inflation – and even those who may still care are not prepared to do, or even say, anything about it.

Last week the evidence became still stronger that bond market vigilantes are now a spent force. The bizarre Gorbachev rally, which added two points or more to Treasuries in

US Treasury yields



Source: Technical Data Int. (London)

an afternoon's trading on Tuesday, easily erased losses resulting from the previous Friday's stronger than expected employment figures.

It pushed the long bond yield back below 9 per cent for the first time since mid-November and created a flat yield curve across the whole range of maturities, from two-year notes to 30-year bonds.

What did this unexpected market action demonstrate? That Soviet troop cuts and détente would square the circle of the Bush Administration's fiscal plans?

The history of the past 10 years suggests a very limited correlation between US defence spending and any objective definition of military "requirements." But even if a change in the Soviet military posture ultimately had an effect US defence spending, the impact of Mr Gorbachev's moves would be negligible, according to Ms Astrid Adolfson, of McCarthy Crisanti & Maffei, one of the few bond analysts who took the trouble to examine the issue last week.

Even in the unlikely event that the Soviet cuts in Europe resulted in an identical reduction in US deployment, the savings would come to between $180m and $2bn annually, depending on whether the freed troops were released entirely from the armed forces or were redeployed in the US.

In reality, of course, the Gorbachev rally only emphasised again how short-term oriented and optimistic the bond market had become.

The reason why bond prices exploded on Tuesday was simply that the market was oversold, with too many dealers carrying their short positions forward from the sharp decline after the employment figures the previous Friday. These shorts became vulnerable when it was apparent that the Federal Reserve was not about to raise its discount rate in response to the Friday figures.

If the market were still dominated by inflation vigilantes, it would have dropped like a stone on the evidence that the Fed was still ambivalent about tightening monetary policy, even in the face of clear signs that the economy was growing far above its 2½ per cent target for gross national product.

Indeed, true bond market vigilantes would long since have turned against the US central bank for expressing its objectives in terms of statistics such as employment and real GNP growth.

The most important monetary lesson of the 1970s was supposed to have been that such "real" economic objectives were bound to push monetary policy in an inflationary direction unless it was "anchored" with nominal targets such as exchange rates, commodity prices or money supply growth.

The problem with all "real" targets, as the inflation-fighters of the 1970s perceived it, was very relevant to the present circumstances in the US.

Once inflation has started to accelerate, it can never be brought under control by a monetary policy which aims to stabilise unemployment or real GNP growth, or even to target the actual rate of inflation.

This is because forecasts of inflation based on the past relationship between prices and employment will constantly prove too low. Private economic agents will keep ratcheting up their prices and wages to keep ahead of the spiral, while the monetary authorities will continually tighten by too little and too late.

According to a growing number of Wall Street's best economists, this is precisely what is likely to happen over the next few years. As Mr David Hale, of Kemper Financial Services, sees it, the key question for US investment strategy has now become: "How will Bush manage stagflation?"

"Tolerably well" might be the best summary of Mr Hale's conclusion. But this only adds credibility to his depressing thesis – that the least unpleasant option for the Bush Administration is to avoid recession at all costs, by allowing inflation to creep steadily upwards and using each faltering of domestic economic activity to devalue the dollar further.

Anatole Kaletsky

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	8.50	8.60	8.31	8.82	6.27
Three-month Treasury bills	7.93	8.30	7.90	8.27	5.40
Six-month Treasury bills	8.18	8.71	8.21	8.51	5.74
Three-month prime CDs	9.20	9.35	8.65	8.58	6.77
30-day Commercial Paper	9.10	9.25	8.31	9.25	6.57
90-day Commercial Paper	9.00	9.15	8.45	9.23	6.65

US BOND PRICES AND YIELDS (%)

	Last Fri.	Change on wk	Yield	1 week ago	4 wk. ago
Seven-year Treasury	98¾	+1	9.12	9.14	8.96
20-year Treasury	103¾	+1½	9.00	9.15	8.96
30-year Treasury	100⅞	+2½	8.96	9.16	9.04

Source: Salomon Bros (estimates).

Money supply: In the week ended November 28 M1 rose $3.1bn to $787.8bn

NRI TOKYO BOND INDEX

December 1983 = 100	PERFORMANCE INDEX 8/12/88	Average yield (%)	Last week	12 wks ago	26 wks ago
Overall	148.38	4.46	148.15	143.33	144.21
Government Bonds	149.82	4.10	149.60	143.46	144.78
Municipal Bonds	149.81	4.84	149.57	144.99	145.94
Govt.-guaranteed Bonds	150.75	4.89	150.53	146.53	147.43
Bank Debentures	141.39	4.34	141.15	137.66	138.18
Corporate Bonds	147.25	5.41	146.90	144.27	144.07
Yen-denom. Foreign Bonds	150.30	6.25	150.11	147.64	145.01
Government 10-year†	4.75	-	4.77	5.32	4.97

† Estimated par yield

Source: Nomura Research Institute

UK GILTS

Grenfell points at things to come

THE EXIT of Morgan Grenfell from the gilts market last Tuesday is a harbinger of things to come.

Unlike other retreats, with the possible exception of that by Citicorp, it appears Morgan Grenfell quit not because it had got its book wrong or failed to secure a decent share of the market. It took a strategic view and decided there was no future in trading gilts. The outlook for the market was, in the words of one executive, "lousy."

The implications for the remaining 23 market makers are significant.

First some facts about Morgan Grenfell's gilts operation. It employed five traders and six salesmen. Four of the traders and three of the salesmen have been redeployed within the company. Of the original capital dedicated to the gilts operation, the company will be left with £15m ($27.7m).

It had planned to reduce the capital dedicated to gilts to this level on January 1. According to the company's press statement, the gilts business incurred losses of about £4.5m in the first 11 months of the year.

It would seem fair to assume, therefore, that the original capital allocated to gilts was somewhat higher than the £15m to be extracted. But precision is difficult and accountants are skilful people; the waters are further muddied by the fact that Morgan Grenfell's gilts arm also encompassed money market trading.

A year ago, Morgan Grenfell thought of pulling out of the market. It decided to have one last go. A new team was brought in and the operation completely reorganised. By July this had been completed and the company's share of retail business in gilts was around ½ to 1 per cent.

At the time, stories circulated in the market of Morgan Grenfell making suicidal prices. Spreads were contracted or did not exist at all, it was said. Morgan Grenfell denied its trading was suicidal but confirmed it had done away with the front book/back book method of trading common in other gilts operations.

The upshot of this change in dealing practice was to increase the operation's share of retail business, which fluctuated around 5 per cent, executives say.

This represents a level of penetration which is reasonable by any standard. It was achieved by getting a quality team to work in a focused way – a team which, moreover, produced profits before expenses.

This, executives say, goes part of the way to explaining why, when the boom was lowered last Tuesday, the gilts team kept on trading. It thought it was only the equities division that was being axed.

Morgan Grenfell could have kept operating in the gilts market. Its overall fixed-interest division was profitable even after allowing for cross-subsidisation of those parts which were not. But like so many, probably all, market makers, the prospect of earning at best a desultory return on capital not only in 1989, but 1990 and 1991 as well, tipped the balance in favour of retreat.

This judgment followed an assessment of the likely outlook for the market in the years ahead.

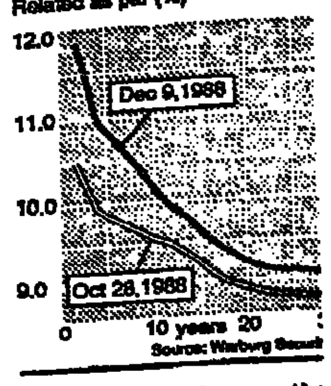
Even if costs could have been cut, that would not have altered the outlook of a steady erosion of the physical stock of the gilts market.

Securities houses make money from trading, and trading new issues in particular. As one executive notes, the only reason to be in Eurobonds is to handle new issues. That is where the money is.

With liquidity drying up and no prospect of new issues in the foreseeable future, the operation's *raison d'être* was looking flimsy. It came down to the question: does one want to devote resources – management, staff and capital – to an endeavour that will not pay, no matter how well one does it? The answer to that question came, a little earlier than planned, on Tuesday.

Simon Holberton

UK gilts yields



Source: Warburg Securities

THE graph shows the magnitude of the deterioration that has occurred across the maturity spectrum since the September/October bull market peaked. The movement has been sufficient to cool analysts' fears that economics no longer matter to the market. The latter took root when the Bank of England's buying-in was still in the novelty phase.

The fall in prices represents a worsening of perception about inflation and concern over a "soft landing" for the economy. That said, it does not seem as if the price movement has been generated through massive selling.

Possibly this week's rash of statistics will produce those conditions – a "bad" figure for the market is a potential "good" figure for the Bank.

FT/AIBD INTERNATIONAL BOND SERVICE

US DOLLAR STRAIGHTS	Issued	Bid price	Chg on week	Yield
A B N 8½ 91	150	97⅛	-⅛	9.86
AETNA LIFE & CAS 7⅛ 16	200	93	-⅛	8.40
AHFC O/S.FIN. 11⅞ 94	100	100⅞	-⅛	11.54
A.I.D.C. 11 89	75	100	0	10.62
ALBERTA PROVINCE 7⅞ 91	750	94½	0	9.56
ALCOA AUSTRALIA 11 92	80	100½	+⅛	10.80
[illegible]				
QUEBEC PROV 13 90	150	104½	-⅛	10.21
QUEENSLAND GOVT 11⅞ 89	100	102⅞	-⅛	9.89
RALSTON PURINA 11⅞ 95	150	104⅞	-⅛	10.78
REYNOLDS R.J. 10⅞ 93	100	93⅛	-⅛	12.16
RICHARDSON-VICKS 11½ 93	125	103⅛	-⅛	10.53
ROCKWELL INT 9⅞ 90	200	100	+⅛	9.80
S.A.S 10⅞ 95	150	101⅞	0	9.84
SNCF 7⅞ 94	175	90½	+⅛	9.67
[illegible]				
SANWA BANK 1⅞ 02	300	113⅞	+1	-1.90
SOUTHWEST AIRLINES 6⅞ 98	35	80⅞	+½	37.62
TEXACO CAPITAL 11⅞ 94	500	106⅛	+1⅛	4.89
YEN STRAIGHTS				
ALLIED-SIGNAL 6⅞ 93	20.00N	104⅞	-⅛	5.52
[illegible]				

STRAIGHT BONDS: Yield to redemption of the mid-price. Amount issued is expressed in millions of currency units except for Yen bonds, where it is in billions.
FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate for US dollars. C.cpn = current coupon.
CONVERTIBLE BONDS: US Dollars unless indicated. Prem = percentage premium of the current effective price of buying shares via the bond over the most recent share price.
WARRANTS: Equity warrant prem = exercise premium over current share price. Bond warrant ex yld = exercise yield at current warrant price. Closing prices on DECEMBER 09

INTERNATIONAL CAPITAL MARKETS

DEVELOPMENT BANK FINANCE

ADB resorts to US for subordinated borrowing

WHILE subordinated borrowings by banks have become a common feature of the securities markets, they have been rare in the case of supranational development banks. After all, their debts are deemed to be the obligations of the governments which back them, and what government asks its borrowers to subordinate their interests to those of other lenders?

The African Development Bank, a supranational bank whose largest backer is the US Government, last week issued two subordinated Yankee bonds totalling $200m, the first time it has raised subordinated debt in the US public markets.

The issues were lead managed by Kidder Peabody.

One, a $100m issue due 1995, carries a coupon of 9½ per cent and is priced at 99.875 to yield 9.52 per cent, a spread of 50 basis points over comparable maturity Treasuries. The other carries a coupon of 9¾ per cent, matures in 2003 and is priced to yield 70 basis points over 10-year Treasuries.

Both issues are rated AA-1 by Moody's Investors Service and AA-minus by Standard & Poor's.

Mr Milan Kerno, vice president of finance at the ADB, said the bank planned to raise the equivalent of $1bn in new borrowings in 1989, about a third of which would be subordinated.

The ADB did not have access to world capital markets until 1982, when industrialised countries became members. The bank's callable capital is deemed to be that of its members, but the non-borrowing members, such as the US and Japan, may not provide more than one third of its $20bn capital base.

Therefore, the capital of the ADB cannot be increased unless either the borrowing members – some of whom are Africa's poorest states – increase their participation or a method of raising capital externally is devised. Hence the issuance of subordinated debt.

In order to maintain the top-flight credit ratings on the ADB's senior debt, the total outstanding may not be more than 80 per cent of the total capital of the non-borrowing members.

In practice, according to Mr Melvin Rines, in charge of development bank financings at Kidder, there is no distinction between the claims of senior and subordinated lenders to the ADB unless a claim is made on the callable capital of all the members.

But that is only likely to occur in the face of a world-wide recession of such severity that the fate of virtually all lenders would be affected.

Mr Rines said that last week's issues for ADB were not the bank's first subordinated borrowings, although they were the first in the US public debt markets. In 1984, the bank made a $100m private placement in the US and followed it in succeeding years with public offerings in Switzerland, West Germany and the UK.

The ADB has also tapped the syndicated loan market in Japan, finding it a source of much more long-term funding than would be available in say the Euromarket.

Just three months ago, it raised Y10bn in a 15-year loan arranged by Long-Term Credit Bank of Japan, paying interest at the long-term prime rate (LTPR). It also raised a Y10bn 20-year loan via Dai-Ichi Mutual Life Insurance paying interest at one basis point over LTPR.

Meanwhile, syndicated Euro-credits are scarce as banks wind down ahead of the usual Christmas torpor.

However, Crédit Suisse First Boston is arranging a $75m seven-year revolving credit facility for Lenfest, a privately owned US cable television company broadcasting into Philadelphia, Pennsylvania and Oakland, California.

The loan begins amortising at the end of the third year and has an average life of five years. There is a commitment fee of 37½ basis points if less than 50 per cent of the facility is drawn, falling to 25 basis points if more than half is drawn. The margin is linked to a ratio of funded debt to annualised cash flow, rewarding the borrower for performance. If the ratio is 5.5 or more, the margin is ⅞ over Libor, falling to ¾ if the ratio falls below that level.

Swedish Export Credit (SEK) said it would be the first supranational to use the emerging Samurai commercial paper market, with a Y25bn programme to be launched after December 15. Daiwa Securities, arranger of the programme, said it did not believe SEK would require a back-up line of credit under new guidelines intended to liberalise the commercial paper market in Japan.

Morgan Grenfell is arranging a £150m commercial paper programme for Mecca Leisure.

Norma Cohen

EUROMARKET TURNOVER ($m)

Primary Market	Straights	Conv	FRN	Other
US$	382.7	0.0	2,929.1	7,068.8
Prev	2,839.2	8.4	23.0	11,756.2
Other	1,624.3	0.0	29.6	1,076.3
Prev	5,305.3	2.6	503.1	2,224.0
Secondary Market				
US$	10,253.1	1,010.6	5,826.0	5,708.3
Prev	12,831.2	877.6	6,384.6	6,221.8
Other	18,656.1	1,125.0	5,636.2	22,455.6
Prev	16,851.5	983.0	3,353.9	20,084.5

	Cedel	Euroclear	Total
US$	9,539.7	23,638.9	33,178.6
Prev	12,515.2	28,426.8	40,942.0
Other	22,684.2	27,918.9	50,603.1
Prev	23,361.6	25,926.3	49,287.9

Week to December 8, 1988 *Source: AIBD*

INTERNATIONAL BONDS

Veteran players await further City lay-offs

VETERAN PLAYERS of the London-based Eurobond market were clearly as shaken as the rest of their City counterparts at last week's redundancies, but their stance was at once more pragmatic and resigned. Overcapacity and rationalisation are concepts that the Eurobond market has had to live with for quite some time now.

While the focus last week was on the post-Big Bang scramble for market share in UK equities and gilt-edged securities trade, Friday's winding up of Purcell Graham, Exco's Eurobond broking arm, drove home the stark fact that bond market volume is still not high enough to justify current staffing levels.

"There are still rather more people than jobs," one senior syndicate official observed.

While not all the job losses have been as public as those seen last week, the Eurobond sector has been subjected to radical pruning over the last 18 months and it is clear that further cuts are inevitable.

The same 18 months has, however, seen a profound change of mood in the market. A new rationality has descended on the new-issue business. In stark contrast with the heady days of the early 1980s bull market, few houses can now afford to bring grossly mispriced deals. There is precious little primary market controversy for reporters to seize on.

At the same time, business is tougher to obtain and the mandate, hard won in a competitive bid, is now more or less the order of the day. With so many institutions demanding discounts to fee level on new bond issues, frequently the only house to make a few dollars is the lead manager itself.

So, how many players in the Eurobond market will have made money in 1988?

The handful of places at the top of the underwriting league table is not in question, so perhaps 10 per cent. Another canny 10 per cent may be at break-even.

Management at the parent banks of the remaining 80 per cent must now be seriously considering whether their groups can continue to devote such resources to a business which is merely breaking even or turning in a substantial annual loss.

Most houses involved in the Japanese equity warrant business have made serious money this year. The sector, once dismissed as a "Mickey Mouse market," has proved to be the single most important generator of income for several Eurobond firms in 1988.

While the sector's success is assured as long as the Tokyo Stock Exchange continues to leap from strength to strength, several senior market figures, perhaps mindful of the swift demise of the floating-rate note market, have cautioned that equity warrants' time at the top could be limited.

Some other houses, barred from the equity warrant bonanza for whatever reason, have managed to secure their market position by becoming expert niche players in some of the smaller currency sectors which have grown in importance since the US dollar's eclipse. Hambros' role in the Australian dollar sector comes to mind in this context.

Tightening of capital adequacy regulations has made life difficult for many of the other houses in the market.

For the high volume performers who have access to relatively cheap funding, being left with the bulk of a new issue on their books is not a catastrophe – they are home and dry as long as they are able to fund themselves at a more attractive margin than the one they are committed to provide to their borrowers.

While this may not provide the best return they could obtain from their assets, it is not losing them anything.

For smaller houses which do not have the distribution capabilities to move this paper off balance sheet, attempting to service this kind of obligation has frequently proved crippling.

Thus the question for the Eurobond market is not whether jobs will go but how, when and who will be next.

After one particular instance of blood-letting at a US house last year, notorious both for its scale and the insensitive way in which it was handled, most firms have been at pains to draw as little attention as possible to their restructuring plans.

While this restructuring appears to have paid off in a handful of cases, reports continue to circulate that several of the second-tier US and UK houses are using this strategy to wind down their bond market operations.

Many of these houses have pointed to their internal reorganisation and to the recruitment at a senior level of experienced bond market figures from other firms as evidence of their long-term commitment to the market.

Yet to many observers this kind of desperate retrenchment more often signals a management running out of both patience and schemes by which to turn the operation around.

Perhaps it is because the Eurobond sector has been acutely aware of its over-capacity for sometime that sackings have become something of an art. Earlier this month, one Japanese house reportedly effected some cuts by reassigning several of its London-based employees to jobs clearly below their capabilities. Those unhappy with their new responsibilities promptly resigned.

● Last week's A$50m two-year issue for the Finance Company of South Australia via CCF carries the guarantee of Beneficial Finance Corporation. The guarantor is a wholly owned subsidiary of State Bank of Australia but it is not guaranteed by either the State Bank or by the State of South Australia.

State Bank's only involvement in the issue is as a co-manager. The issue, which carried an attractive 15 per cent coupon, was one of the most successful seen recently in the sector last week, attracting strong demand from retail investors in Continental Europe.

● Baring Brothers has fixed the terms on its £60m Eurobond for Associated Newspapers convertible into Reuters shares. The bonds are convertible at 538p and the coupon is set at 8.25 per cent.

Dominique Jackson

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Sumitomo Rubber Ind.‡◆	100	1992	4	4½	100	Daiwa Europe	4.500
Nippon Zeon Co.‡◆	100	1992	4	4½	100	Nomura Int.	4.500
Nippon Stainless Steel‡	100	1992	4	(4¾)	100	Yamaichi Int. (Eur)	★
IBJ Finance Co.◆	200	1993	5	9⅝	101.45	IBJ Int.	9.250
Life Co.‡	80	1992	4	(5⅛)	100	Nikko Secs (Europe)	★
Tokyo Steel‡	120	1992	4	(4¾)	100	Nomura Int.	★
Daishinpan Co.‡	100	1992	4	(4¾)	100	New Japan Secs.	★
African Dev. Bank(a)◆	100	1995	7	9½	99.875	Kidder,Peabody & Co.	9.525
African Dev. Bank(a)◆	100	2003	15	9¾	100	Kidder,Peabody & Co.	9.750
CANADIAN DOLLARS							
City of Copenhagen◆	65	1994	5.1	10¾	101½	Deutsche Bk Cap.Mkts	10.344
CIBC - Singapore◆	75	1991	2	11¼	101.35	Wood Gundy	10.467
Thomson Brandt Int.◆	75	1991	2.2	11¼	101½	UBS (Secs)	10.405
Fed.Bus.Dev.Bk Canada◆	75	1991	2½	10¾	101⅛	J.P. Morgan Secs.	10.157
AUSTRALIAN DOLLARS							
PIBA◆	75	1992	3	14½	101½	WestLB	13.855
Finance Co.S. A'tralia◆	50	1991	2	15	101.60	CCF	14.028
Eurofima◆	45	1992	3¼	14	101½	Deutsche Bk Cap.Mkts	13.335
Akzo◆	50	1992	3	14⅜	101⅞	Bayerische Vereinsbk	13.573
Australian Tel.Comm(b)◆	50	1992	3⅔	12½	98⅞	Samuel Montagu	13.561
NEW ZEALAND DOLLARS							
Unilever Cap. Corp.◆	60	1992	3	14	101⅞	Hambros Bank	13.203
World Bank◆	75	1994	5	14	102	Hambros Bank	13.425
PESETAS							
IFC◆	10bn	1994	5	11¼	99¾	J.P. Morgan	11.318
D-MARKS							
IKB Int.◆	75	1994	5.1	5½	99¾	IKB	5.555
Cr. Suisse Finance◆	200	1994	5	5⅜	101⅝	CSFB-Effectenbank	5.000
Trinkaus & B'hardt Fin◆	75	1993	5	5½	101	Trinkaus & Burkhardt	5.267
Sweden◆	200	1994	5	5¼	101¼	Morgan Stanley	4.962
Dai-Ichi K.Bk Ned'land◆	300	1994	5	5½	101⅝	Morgan Stanley	5.123
BHF Fin. (Netherlands)◆	100	1993	5	5½	101	BHF-Bank	5.267
SWISS FRANCS							
Daito Seiki Co.★★§◆	60	1994	-	½	100	Banca del Gottardo	0.500
Iwataya Dept. Store★★◆	30	1993	-	4¾	100¼	Fuji Bank (Schweiz)	4.693
STERLING							
Smith & Nephew Fin.♥◆	80	2004	15	8¾	100	CSFB	8.750
Dawson Finance♥◆	30	2004	15	9⅜	100	CSFB	9.375
Fed. Express Finance◆	75	1993	5	12⅛	101⅝	CSFB	11.678
Assoc. Newspapers(c)§◆	60	2003	15	8¼	100	Baring Brothers	8.250
LUXEMBOURG FRANCS							
EIB★★◆	300	1994	5	7¼	100¼	Bqe Paribas (Lux)	7.189
ECSC★★◆	300	1990	2	7	100⅜	BGL	6.793
Barclays Bank★★◆	300	1993	5	7½	101	BIL	7.254
YEN							
Kansallis-Osake-P.◆	5bn	1993	4.4	0	84.125	Mitsui Trust	4.007
Autopistas d'Atlantico◆	20bn	1998	10	5	100	Nomura Secs.	5.063
Tianjin Int.Tst & Inv.◆	10bn	1998	10	5.1	100.9	Nikko Secs.	5.047

★Not yet priced. ★★Private placement. ‡With equity warrants. §Convertible. ♥Convertible preference shares. ◆Final terms. a) Launched on US domestic market. b) Fungible with existing A$150m issue launched in October. c) Convertible into B ordinary shares of Reuters. Note: Yields are calculated on AIBD basis.

CONTRACTS

J.M. Jones wins £50m orders

The J.M. JONES CONSTRUCTION GROUP has won over £50m of contracts in the past three months. The work involves both private and public sector contracts, and includes wins for the design and build division.

Among the work is the £4.5m Marble Place shopping centre in Southport for Eagle Star and Markham Developments. The 90,000 sq ft shopping centre will include a main store with 17 smaller shop units, designed by architects Leslie Jones & Partners.

In the industrial sector, a contract has been won to build industrial units in Purley Way, Croydon for Commercial Union Properties. The project will comprise five units in three blocks with composite steel and concrete frames.

In Harrow, Scottish Metropolitan Property has selected J.M.Jones to construct 142,500 sq ft of two-storey production and office units.

Two contracts have been awarded by the Oxford Regional Health Authority for units for the elderly at St Marks Hospital, Maidenhead and Amersham District General Hospital. The company is also refurbishing and extending the dining facilities at the Royal Military Academy, Sandhurst.

★

BUSH & TOMPKINS has been awarded a £1.8m contract for the construction of Phase II of the Belasis Hall Technology Park, Billingham, Cleveland, by English Estates. Phase II comprises four steel-framed buildings, totalling 55,000 sq ft, *with a tiled roof covering on a metal deck support layer.* The envelope is generally cavity walling (brick/block) with glazed aluminium infill panels, windows and doors.

Offices project for Islington

BALFOUR BEATTY BUILDING has been awarded a £26.8m contract by Balfour Beatty Developments and Charlecote Estates to construct a five-storey office complex at Angel Square, Islington, London.

The development provides three individual office blocks around a central courtyard, with a total of 19,000 sq metres gross floor area. The project also involves the construction of a new access, ticket office and escalator shaft into the Angel Underground station and a public house to replace the Blue Angel. Shopping space and underground parking will also be provided in a two-level basement.

The building is to be founded on bored in situ concrete piles, including a contiguous piled retaining wall, with the basement and building frame in reinforced concrete. The external envelope of the building is to be of cavity wall construction with the use of reconstituted stone and brickwork arranged in contrasting bands and panels, and double glazed coated aluminium windows. Roof construction is a blend of flat roofing, traditional pitched and mansard type construction.

A feature of the site is the clock tower on the corner of the busy interchange between City Road and Islington High Street. The building is to be fitted out with raised floors and suspended ceilings. The works have recently commenced and completion is scheduled for November 1990.

Shopping in Grimsby

SIR ROBERT McALPINE MANAGEMENT CONTRACTORS has been appointed by Hammerson UK Properties for the refurbishment and extension of Freshney Place, formerly The Riverhead Centre, in Grimsby. The contract is worth in excess of £20m.

The original Riverhead Centre, built in the early 70's, will have a fully enclosed extension totalling 10,200 sq metres which will contain two stores, 25 shop units and kiosk at ground level with a food court and shop storage above. Two multi-storey car parks will be built, one at each end of the scheme, giving direct access to the shopping malls by lifts and staircases. They will provide 500 and 600 spaces respectively.

Construction of the new shopping area will be of in situ reinforced concrete frame and slabs, supported on piled foundations and ground beams. A pre-fabricated reinforced concrete frame, with pre-tensioned structural slabs will be used for the multi-storey car parks to reduce overall construction time. Brick will be used on all the external elevations in keeping with the Grimsby townscape.

The centre will be completely refurbished with ceramic tiled floors, pitched glazed roof and finishes to match the extension. The open landscaped squares of the shopping malls will have various features, including a coffee bar, exhibition and promotion areas.

Work includes the reorganisation of services and the installation of lifts, escalators and smoke extraction equipment, fire and full sprinkler systems.

The shopping centre will remain open for trading during the entire construction period. Both the extension and the refurbishment will be completed in time for Christmas trading in 1990.

Regent Street store

A contract valued at £4.8m has been received by ELANP DESIGN AND MANAGEMENT *for the refurbishment and refit of the Austin Reed flagship store in Regent Street, London.*

Austin Reed is turning the fourth floor of the store into a trading floor, increasing the woman's wear options and creating a catering facility. The overall programme is being phased over a 20-month period to cause minimum disturbance within the store. The contract is due for completion in the autumn of 1989.

DIARY DATES

FINANCIAL

TODAY
COMPANY MEETINGS-
Lucas Industries, Birmingham Metropole Hotel, National Exhibition Centre, Birmingham, 12.00
BOARD MEETINGS-
Finals:
Brown Shipley
Carlton Comms.
Durban Roodepoort
East Rand Prop.
Great Western Resources
Hardys & Hansons
Lucas & Marchant
UK Land
Wolverhampton & Dudley Breweries
Interims:
Celestion Inds.
Compco Hldgs.
Dowty
FKB
Havelock Europa
Petrol Hldgs.
Priest (Ben)
Racal Elect.
Racal Telecom
Russell (Alexander)
SKB Group
Safeland
Saltire Ins. Invs.
Scottish & Newcastle Brews.
Tinsley (Eliza)
Westminster & Country Props.
Whitecroft
Wood (S. W.)
DIVIDEND AND INTEREST PAYMENTS-
Allied Irish Banks Fltg. Rate Nts. 1996 $414.37
Amdahl Corp. 2.8cts.
Atlas Converting Equipment 3.5p
Latinoamericano De Export SA Fltg. Rate Nts. 1991 (with Warrants) $446.44
Do. (without Warrants) $446.44
Britannia Security Group 1.35p
British Dredging 2.2p
Chevron Corp. 65cts.
Eaton Finance 12½% Uns. Ln. 2014 6.25pc.
Elys (Wimbledon) 4p
European Leisure IR0.1p
Exchequer 12% 2013/17 6pc.
Honda Motor Y5
Honeywell 52.5cts.
Jacques Hldgs. 0.8p
Mobil Corp. 80cts.
Monotype Corp. 1.7p
Pochin's 1p
Pittard 1.7p
Servico Group 2p
Sears 1.4p
Squibb Corp. 40cts.
Ward White Group 3p
Waterford Glass Group 1.2p
Waterford Glass/Wrtd. Wedgwood 1.2p
Wells Fargo & Co. Fltg. Rate Sub. Nts. 1994 $114.86
TOMORROW
COMPANY MEETINGS-
Clydesdale Inv. Trust, 30 Finsbury Circus, 12.00
Dale Simpson, 34 German Street, S.W., 12.00
Keystone Inv. Co., 23 King William Street, E.C., 11.00
Majedie Invs., The Baltic Exchange, St. Mary Axe, E.C., 12.15
Raine Industries, The Darwin Suite, Assembly Rooms, Derby, 12.00
Rosehaugh, The Claridges Hotel, Brook Street, W., 10.00
Smiths Industries, 765 Finchley Road, N.W., 12.00
UDO Hldgs., Great Eastern Hotel, Liverpool Street, 11.00
BOARD MEETINGS-
Finals:
Airtours
Devenish (J. A.)
English China Clays
Granada Group
Hambros Advanced Tech. Trust
Kleen-E-Ze Hldgs.
Thornton (G. W.)
Titon
Vaux Group
Vlakfontein Gold Mining
Interims:
Archimedes Inv. Trust
BSS Group
Border TV
Brockmount
Creighton Labs.
Deelkraal Gold Mining
Driefontein Cons.
Fine Art Devs.
Ford Seller Morris Props.
Gateway Corp.
Kloof Gold Mining
Libanon Gold Mining
Lister & Co.
Plysu
River & Merc.
Southend Prop.
Stewart & Wright
Wardell Roberts
DIVIDEND AND INTEREST PAYMENTS-
Alva Inv. Trust 1.3p
City of Oxford Inv. Trust 0.7p
German Securities Inv. Trust 1.05p

Intl. Thompson Org. 11cts.
Keystone Inv. 6p
London & St. Lawrence Inv. 2.16p
Midland Bank Und. Fltg. Rate Prim. Cap. Nts. (Ser. 3) $405.4
Royal Bank of Scotland Group Und. Fltg. Rate Prim. Cap. Nts. $402.84
Tenneco Inc. 76cts.
WEDNESDAY DECEMBER 14
COMPANY MEETINGS-
Intl. City Hldgs., General Council of British Shipping, Bury Court Suite, 30/32 St. Mary Axe, E.C., 11.00
New Cavendish Estates, 1 Crown Court, Cheapside, E.C., 12.00
TR Australia Inv. Trust, Mermaid House, 2 Puddledock, E.C., 11.00
Town Centre Securities, Town Centre House, The Merrion Centre, Leeds, 2.30
Wardle Storeys, Brantham Works, Brantham, Manningtree, Essex, 9.30
BOARD MEETINGS-
Finals:
Anglo Transvaal Trustees
Baggeridge Brick
Chemring
Hoskyns Group
United Scientific
Yorkshire TV
Interims:
Authority Invs.
British Bldg. & Eng. Appliances
Callyns
Charter Cons.
ERF
Halma
M & G 2nd Dual Trust
Microlec
Midsummer Leisure
Polly Peck
Property Trust
DIVIDEND AND INTEREST PAYMENTS-
Agricultural Mortgage Group 10¼% Deb. 92/95 5.125pc.
Allied Irish Banks 5.75p
Bank of Tokyo (Curacao) Hldgs. NV Gtd. Fltg. Rate Nts. Dec. 1991 $203.53
Banque Nationale De Paris Sub. Fltg. Rate Ser. Nts. 1994 £225
Clayform Props. 3.1p
Conversion 9½% 2002 4.75pc.
FR Group 1.94p
Hewden-Stuart 0.75p
Honeysuckle Group 3.8p
Hunting Petroleum Services 3.6p
Johnston Group 3p
Nedlloyd Finance BV Gtd. Fltg. Rate Nts. 1993 $2180.21
RTZ Corp. (Reg.) 4.25p
Do. (Br.) 4.25p
Reflex Invs. IR0.449p
Stocklake Hldgs. 3p
Tie Rack 0.485p
Treasury 10½% 1999 5.25pc.
Tudor 1.5p
Video Tape Recording 1.7p
Western Motor Hldgs. 3.5p
WEDNESDAY DECEMBER 15
COMPANY MEETINGS-
AGB Research, The Intl. Press Centre, 76 Shoe Lane, E.C., 12.00
Blanchards, Basil Hotel, Basil Street, S.W., 4.30
Fleming Japanese Inv. Trust, 25 Copthall Avenue, E.C., 12.00
Fundinvest, 9 Devonshire Square, 12.00
LWT Hldgs., South Bank Television Centre, S.E., 3.00
Smart (J.) & Co., 28 Cramond Road South, Edinburgh, 12.00
Williamson Tea Hldgs., The Tea Brokers' Association Commitee Room, Sir John Lyon House, 5 High Timber Street, E.C., 12.00
BOARD MEETINGS-
Finals:
Bradstock Group
Dwyer & Co.
Lee (A.) & Sons
Stakis
Viking Packaging
Watson & Philip
Westland

Interims:
Bolider Group
Bulmer (H. P.)
CH Inds.
Clarke Hooper
Electric & Gen. Inv.
Firth (G. M.)
Graig Shipping
London Merchant Securities
Melville Street Inv.
Northamber
Wentworth Intl.
DIVIDEND AND INTEREST PAYMENTS-
AECI 5½% Prf. 5.5cts.
Abitibi-Price 15¾% Debs. Ser. 1 15/12/91 7.875pc.
Alba 2.65p
BDA Hldgs. 1.5p
BSR Intl. 5½% Uns. Ln. 86/90 2.75pc.
CBX Corp. 31cts.
Caisse Nationale Des Autoroutes 16% Gtd. Ln. 2006 8pc.
Callard 38cts.
Cummins 55cts.
Dana Corp. 40cts.
Emhart Corp. 22cts.
Era Group 1p
FPL Group 55cts.
Framlington O'seas Inc. & Growth Fd. Ptg. Red. Prf. 1p
GR Hldgs. 15p
General Mining Union Corp. 180cts.
Do. 8½% Var. Comp. Cnv. Prf. 85.25pc.
Do. 12½% Uns. Sub. Comp. Cnv. Debs. Irrd. 58.25pc.
Govett American Endeavour Fd. 6.75cts.
Guardian Royal Exchange Assurance 7% Uns. Ln. 86/91 3.5pc.
Hemlo Gold Mines 10cts.
Investors Capital Trust 5¾% Prf. 1.8375p
King & Shaxson Hldgs. 2.3p
Do. Ptg. Ptd. 1.75p
Do. 5% 2nd Prf. 1.75p
Kingsgrange 0.75p
Loraine Gold Mines 25cts.
Louisiana Land & Exploration 25cts.
MIM Britannia Jersey Gilt Fd. Ptg. Red. Prf. 0.625p
Mercantile House Hldgs. Var. Rate Uns. Ln. 84/89 4.49009p
Mercury Asset Management group 3.5p
M & G Midland & Gen. Trust Fd. 13.685p
NEC Corp. Y4.5
Pacer Systems 2.5cts.
Pennzoil Co. 75cts.
Portland Hldgs. 7.5cts.
Royal Trust Yen Bond Fd. Ptg. Red. Prf. Y2.5
St. Lawrence & Ottawa Railway Co. 4% Stg. 1st Mtg. Bds. 2pc.
Seagram 30cts.
TR Ind. & Gen. Trust 1.2p
TRW Inc. 43cts.
Treasury 8¼% Ln. 87/90 4.125pc.
Trinova Corp. 18cts.
UDO Hldgs. 1.71p
Wagon Ind. Hldgs. Cnv. Ptg. Prf. 2.9794p
WEDNESDAY DECEMBER 16
COMPANY MEETINGS-
Bolton Textile Mill, Level 9, Frobisher Cresent, The Barbican Centre, 12.00
Elsco Hldgs., *Institute of Directors Business Centre, Waterloo Room, 116 Pall Mall, S.W., 12.00*
Fisher (Albert), Castle Hotel, 18 High Street, Windsor, Berkshire, 12.00
Govett Strategic Inv. Trust, Shackleton House, 4 Battle Bridge Lane, S.E., 12.30
Lowland Inv. Co., 3 Finsbury Avenue, E.C., 2.30
McKechnie, Metropole Hotel, Birmingham, 12.00
BOARD MEETINGS-
Finals:
Brunner Inv. Trust
Ivory & Sime
M & G Group
Interims:
Campbell & Armstrong
Forminster
Reliance Security
Security Archives
Wellman
DIVIDEND AND INTEREST PAYMENTS-
AGB Research 1p
ATA Selection 0.84p

PARLIAMENTARY

Today

Commons: Electricity Bill, second reading.

Lords: Motion on Iron Casting (Scientific Research Levy) (Abolition) Order 1988. Debate on report of the investigation into the King's Cross fire.

Select Committee: Public Accounts: subject, multilateral aid. Witness: J Caines, Permanent Secretary, Overseas Development Administration. (Room 16, 4.30 p.m.).

Tomorrow

Commons: Electricity Bill, second reading. Civil and Defence votes on account, and winter supplementary estimates. Motion on Social Fund Cold Weather Payments (general) amendment regulations.

Lords: Atomic Energy Bill, second reading. Debate on White Paper "Broadcasting in the 1990s: competition, choice and quality." Question to Government on standards of care for infirm and elderly.

Select Committees: Members' Interests: subject, parliamentary lobbying. Witnesses: National Union of Railwaymen, COHSE and TFWU. (room 15, 4.30 p.m.)

Wednesday

Commons: Debate on British Shipbuilders. Second reading of Transport (Scotland) Bill.

Lords: Debate on Southern Africa. Debate on violation of human rights, particularly in Uganda, Iran and Chile. Question to government on surveys into primary school staffing.

Select Committees: Environment: subject, toxic waste. Witnesses: London Waste Regulation Authority (Room 21, 10.30 a.m.)

Education, Science and Arts: subject, Higher Education. Witness: Mr Robert Jackson, MP, Education Under-secretary. (Room 21, 4.15 p.m.)

Employment: subject, Employment patterns of over-50s. Witness: Professor Charles Handy (Room 8, 4.15 p.m.)

Foreign Affairs: subject, Eastern Europe and Soviet Union. Witnesses: as morning (Room 7, 4.15 p.m.)

Public Accounts: subject, defence estate; RAF tanker fleet. Witnesses: Sir Michael Quinlan, Permanent Secretary, Ministry of Defence; Sir Gordon Manzie, Chief Executive, Property Services Agency (Room 16, 4.15p.m.)

Thursday

Commons: Security Service Bill, second reading. Committee and remaining stages of Petroleum Royalties (relief) and Continental Shelf Bill.

Lords: City of Glasgow District Council order confirmation Bill, report.

Trade Fairs and Exhibitions: UK

December 16-17
Cash and Carry Fashion Fair (01-727 1929)
Kensington Town Hall

December 31-January 8
Model Engineers Exhibition (0442 41221)
Wembley Centre

January 4-15
London International Boat Show (0932 854511)
Earls Court

January 5-8
Holiday and Travel Fair (021-780 4171)
NEC, Birmingham

January 7-12
International Toy Fair (01-226 6653)
Harrogate

January 12-15
Northern Travel Fair (01-891 5061)
G-Mex Centre, Manchester

January 15-18
International Lightshow Exhibition (0588-4658)
Olympia

January 17-19
International Contract Flooring Exhibition (021-705 6707)
Olympia

January 20-22
Daily Mail International Holiday Exhibition (0895-72277)
Alexandra Palace

January 23-26
Catering Show - HOSPITALITY (021-705 6707)
NEC, Birmingham

January 24-26
Hirex Exhibition (01-660 8008)
Wembley Centre

January 28-February 1
British International Toy and Hobby Fair (01-701 7127)
Earls Court

Overseas Exhibitions

Current
Children's World Exhibition (01-437 3344) (until December 16)
Kuwait

December 13-16
International Defence Equipment Exhibition and Conference – DEFENCE ASIA (0494-729406)
Bangkok

January 11-14
Toy Show (01-930 7955)
Hong Kong

January 13-19
International Food Fair of Scandinavia (01-439 0992)
Copenhagen

January 20-23
Leather and Suede Fashion Exhibition – PIELESPANA (0494-729406)
Barcelona

January 23-26
Middle East Electronic Communications and Computer Graphics Shows and conference (01-486 1951)
Bahrain

January 29-February 1
Irish Crafts Trade Fair (Dublin 884939)
Dublin

January 29-February 1
International Confectionery, Chocolate and Biscuit and Pastry Trade Exhibition (01-225 5566)
Paris

Business and management conferences

December 12
The Institute of Chartered Accountants: Improving business performance – today's challenge (0908 668833)
The Gloucester Hotel, London

December 13
The Henley Centre: The UK economy: boom or bust-looking at the next five years (01-353 9961)
The Cavendish Conference Centre

December 13-14
Financial Times Conferences: World Telecommunications (01-925 2323)
Hotel Inter-Continental, London

December 14
CBI Conferences: Equal pay for work of equal value – after Hayward and Pickstone (01-379 7400)
Centre Point, London

December 15
Pira: The single European market-the enlarged market and the implications for packaging ((0372-376161)
Blackburn

January 9-13
Management Training Consultants: Techniques of supervisory and management training for trainers (0533-627062)
Leicester

January 10-12
AD 2000 Management Services/Indevo: Business location strategy (01-977 3474)
The Barbican Centre

January 12
IPM: Managing human resources (01-946 9100)
Chelsea Hotel, London

January 17-18
Institute for International Research: Corporate identity and design management (01-434 1017)
CBS Conference Centre, London

January 19
Management Forum: Food and trading law developments (0483-570099)
Cafe Royal, London

January 19-20
The Royal Institute of International Affairs/The Middle East Institute: The Iranian revolution-10 years later (01-930 2233)
Chatham House, London

January 23-25
IRS Training: Complete employment law (01-354 5858)
Royal Automobile Club, London

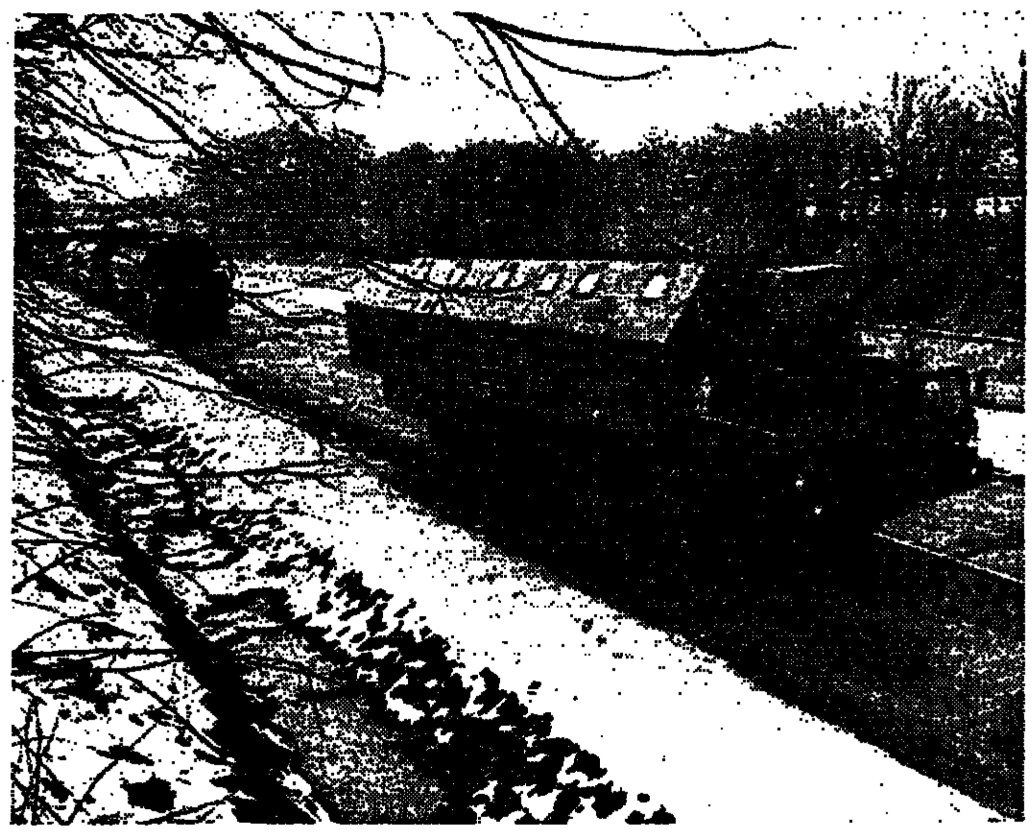
February 2
Tolley Conferences: Practical VAT annual conference (01-680 5682)
The London Press Centre

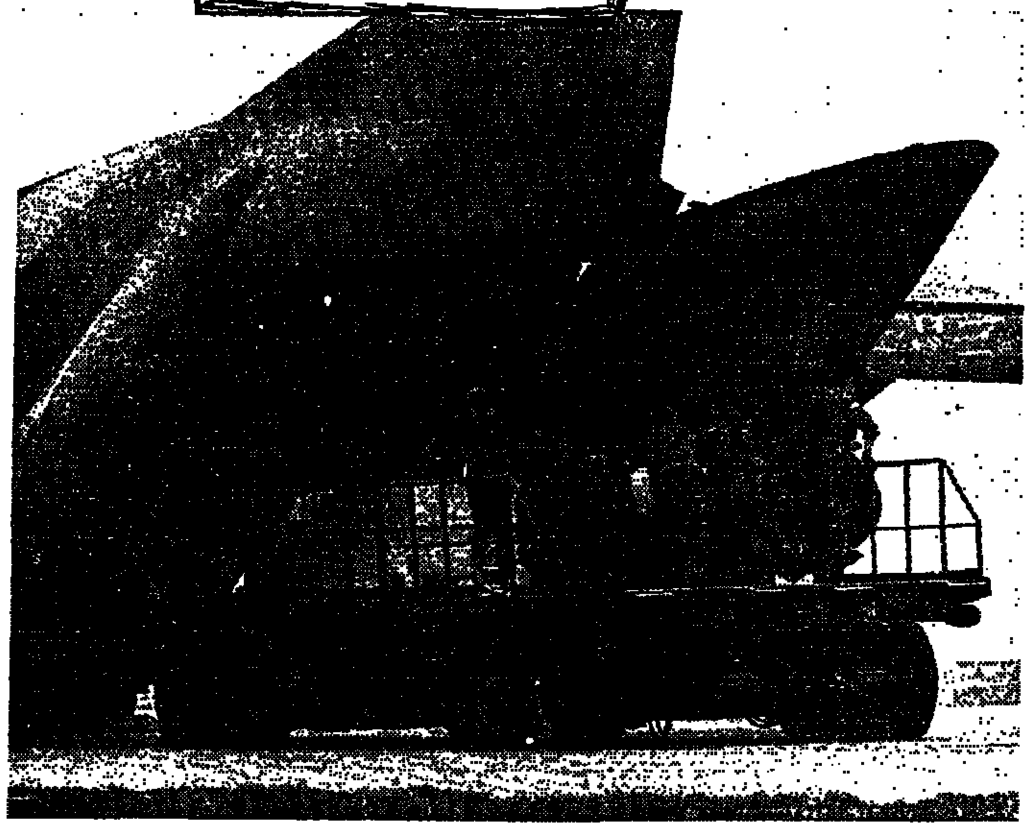
February 6-8
Frost and Sullivan: Taking full advantage of computer software packages (01-730 3438)
London

Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there have been no changes to the details published

FINANCIAL TIMES
SURVEY

The INF Treaty has been successfully implemented and the Soviet Union has a new image. It will add momentum to defence budget curbs which are already forcing industries both to collaborate and compete more. **David White, Defence Correspondent, reports**





The INF Treaty in action: left, Soviet SS-12 missiles being withdrawn from East Germany and, right, RAF Molesworth Cruise missiles being loaded for destruction in the US

DEFENCE

The threat of detente

TAKE TWO images from 1988. One is of US cruise missiles, the same that provoked such bitter protest when they were brought in only a few years ago, being ferried out of a Cambridgeshire air base for destruction in their country of origin.

The other is of the Soviet MiG-29 Fulcrum fighter, making its début in the West at the Farnborough air show, winning admirers with its showpiece manoeuvre of stopping in the middle of a vertical climb and sliding back tail-first, a physical demonstration of the principle that nothing is irreversible. A seasoned French air force officer at the show still thinks it was an optical illusion.

Scenes like this are rapidly coming to appear unexceptional. Hardly an eyelid is batted when Soviet inspectors are welcomed to watch British soldiers exercise on Salisbury Plain. But who in their predictions for the late 1980s can claim to have imagined such developments?

For Western defence ministries, détente presents its own problems. As General Wolfgang Altenburg, Nato's military committee chairman, put it when weighing old and new Soviet attitudes: "Boy, when they start smiling, that's when it gets tough."

The proponents of sustained military spending, of a solid Western position as a starting point from which to negotiate East-West cuts in conventional arms, face a credibility problem. Is the voter still motivated to back high defence funding?

For all its political significance, the Intermediate Nuclear Forces (INF) treaty, now ratified and under way, will not bring any real economies. For its part, Moscow says it can make prams instead of missiles at its Votkinsk factory and expects to save Roubles 300m; but even then, it would be only about 0.1 per cent of that country's annual military expenditure. The missiles being scrapped are only a fraction of nuclear arsenals, and the gaps are being filled by other weapons on both sides. Negotiated cuts in conventional arms promise to save much more, but they are not for tomorrow.

At the same time the new image presented by Mr Mikhail Gorbachev's Soviet Union – most recently with his dramatic announcement in New York of deep unilateral cuts in Soviet troops and equipment - will make it increasingly hard to argue for defence funds on the grounds of the risk of Soviet attack. At Nato headquarters, officials are racking their brains for ways to soften the rhetoric and still press the case. A report this month, which set out to palliate the quarrel about how much of the defence burden the US has to bear, focussed on this problem.

So far, the case was argued on the basis that Moscow had only talked about altering its military posture and had done nothing to match its words, that it still turned out 280 tanks every month and kept 7,000 of them in East Germany alone. But what if the Red Army is indeed now adopting a more defensive stance?

Defence budgets are already being squeezed in most Western countries, notwithstanding the statements of intent about maintaining spending that are summoned up for Nato meetings. Nowhere is this more true than in the US itself. After one of the biggest military build-ups in US history during the first five years of the Reagan Administration, the trend has gone decisively into reverse. Spending has since declined in constant terms, although it remains well above the 1980 level. At $300bn a year, it still accounts for more than 6 per cent of US gross domestic product, but that share is henceforth expected to be whittled down.

Mr Frank Carlucci, the current US Defence Secretary, has set 2 per cent real growth per year as the requirement for keeping present programmes intact. Cuts already made imply, over a five-year period, a reduction of $200bn on forecast expenditure. If, with the incoming Bush Administration, Congress denies the Pentagon its 2 per cent, Mr Carlucci says it will mean lopping off a further $116bn over the five years. To give an idea of proportions, that is about the same as five years' defence spending for the rest of the western hemisphere.

Even in the UK, where the Ministry of Defence has secured a deal from the Treasury which allows it to resume real-term growth between now and 1992, defence spending is slowly declining as a share both of gross domestic product and of public expenditure as a whole.

Worldwide, military spending seems to have levelled out at about $900bn a year. For defence manufacturers, prospects overall appear to leave little room for growth. Britain's defence industry has been boosted by a spectacular series of orders based on the Anglo-German-Italian Tornado combat jet, notably in deals with Saudi Arabia and Malaysia, whose air forces have up to now relied on US supplies. However these successes distort the export picture. Markets in developing countries, which is where most arms sales go, are by no means all blossoming.

But within the global limits, some sectors can expect to fare better than others, as the emphasis continues to shift from the weapons themselves to the electronics that go in them and that can multiply their effectiveness. The demand for more and more sophisticated microelectronic sensors is matched by the demand for stealth techniques to avoid them. The market in Europe for the branch known as command, control, communications and intelligence (or rather, in the abbreviated gobbledegook that is the curse of the defence business, CI), is estimated at over $20bn by 1992. More use of simulators can be expected in the effort to save both on training costs and on the irritation of civilian populations in West Germany and elsewhere at having to put up with low-flying jets.

In the race to keep up technologically, the big projects will not dry up, but the way the business is evolving, there will be fewer of them. The leap in costs between successive generations of equipment is notorious, as research and development takes up an ever larger share of the final bill. The European Fighter Aircraft, which the UK, West Germany, Italy and Spain are backing for development, is set to cost them at least £27.5m apiece, half as much again as the price of a Tornado. And this is peanuts compared with the strange US "stealth fighter," the F-117A, at about $150m each, or the eerie B-2 stealth bomber, shown to the public last month, at $500m per aircraft.

Programmes get bigger and more complex, the variety diminishes, and the question then becomes who can get on board? As markets are compressed and governments such as the UK's seek to pass the technical risk on to their suppliers, European manufacturers have little choice but to move increasingly into collaborative ventures, which allow them to share the risk and achieve economies of scale by plugging themselves into a wider customer base.

Recent months have seen a jockeying for size in the European defence industry. In West Germany, Daimler-Benz's move to take the MBB aircraft, helicopter and missile company under its wing implies a simultaneous process of privatisation and concentration. The group's defence interests now extend from MBB and Dornier in aerospace, through AEG, the country's main defence electronics contractor, to MTU, maker of engines for tanks and aircraft and, by virtue of MBB's shareholding, the Krauss-Maffei tank company.

In France Thomson-CSF and Aérospatiale have begun discussing a merger of their avionics businesses. In the UK, following British Aerospace's purchase of Royal Ordnance from the Government last year, GKN, the disappointed bidder, has taken up a big stake in Westland, the helicopter manufacturer. GKN up to now has had only 5 per cent of its turnover in defence, but plans not only to move towards majority control of Westland, but also to build on its business in armoured combat vehicles to become the UK's "obvious choice" as prime contractor for army programmes.

"Survival," believes Mr David Lees, its chairman, "may well be an issue of scale and backing."

A further reshuffling of forces is promised by GEC's fresh bid for Plessey, its electronics rival, after an initial attempt that was turned down on competition grounds two years ago. GEC hopes that by sharing Plessey's European defence interests with Siemens of West Germany, it can per-

Continued on Page 2

CONTENTS

Tougher terms have replaced "cost-plus" contracts

Cultural revolution in procurement

NEXT April Fool's Day, Britain's Ministry of Defence celebrates the 25th anniversary of its existence under that amalgamated title.

Created the year after the Profumo affair, the Ministry has been through almost every other kind of storm in that period. There were funding crises in the mid-1960s and mid-1970s, which established the phrase Defence Review as a standard English euphemism. There were the decisions to update the Polaris nuclear deterrent and then to replace it with Trident.

There was, of course, the Falklands War, which overtook the last defence review before it could be implemented. There was Mr Michael Heseltine and his reorganisation of the Ministry, and the Westland affair over which he resigned in 1986 (but which in the end did not result in a sell-out to the US, since the main shareholder in the helicopter company is now Britain's GKN).

If there has been one recurrent theme through the 25 years, it has been the problem of budget management. In the Thatcher period, the chickens came home to roost after a 20 per cent rise in defence spending in real terms between 1979 and 1985. Expenditure has since been reined back, although the ministry's latest three-year deal is somewhat better than the zero real-terms growth that had been forecast.

A slight real reduction of 0.7 per cent in the next financial year is offset by a 1.7 per cent increase for 1990/91 and a further 1.3 per cent the year after, bringing the budget up from the current £19.3bn to over £22bn in 1991-92. But this is well within the likely rates of economic growth, and defence's share of the gross domestic product, which last year was 4.7 per cent, can be expected to slip down towards 4 per cent.

The deal with the Treasury leaves the Ministry very little leeway. The planning task is complicated: the MoD does its costings forecasts on a 10-year basis, but funding is allocated only for three. Is there another crunch coming around the corner? None, say senior officials, that would bring into question any of Britain's main commitments – the nuclear deterrent, the Nato maritime role in the North Atlantic, defence of the UK, or the British presence in West Germany. But that does not mean the force structure will remain unchanged.

Government white papers for the last three years have warned of "difficult decisions" (1986) and "difficult choices" (1987 and 1988). Mr George Younger, the Defence Secretary, presenting the latest three-year budget plan, commented: "I'm quite sure I'm not free of difficult choices yet."

The room for savings is small in manpower costs or in long-running armaments programmes. Reductions have been found, however, in the £9bn Trident nuclear missile submarine programme, due to become operational in 1994.

Costs have been trimmed by some 10 per cent, partly through exchange rate changes but also through tight project management and contract negotiations. Two submarines have been ordered from Vickers Shipbuilding and Engineering (VSEL), and the third of the total of four is due to be ordered next year.

Trident's impact on the budget reaches its peak in the next four or five years, but it is spread out, and at £2m or so a day is still less than that of the Tornado fighter. Trident is a technical challenge for the UK which, unlike the US, will not have progressed through intermediate stages from Polaris onwards. But it is well enough advanced to have lost much of its impact as a political issue.

Dr David Owen's Social Democrats have accepted it as a *fait accompli*, Mr Paddy Ashdown of the Social and Liberal Democrats feels the same way, and the Labour leadership is still trying to shift its stance despite having been pulled back onto the hook of unilateral disarmament by this year's party conference in Blackpool.

The centre of controversy has shifted to a series of crucial equipment decisions. At the time of writing, the choice of the next main battle tank for the British Army of the Rhine, between Vickers' planned Challenger 2 and the M1A1 Abrams made by General Dynamics of the US, was still in the balance.

Another decision looms next year for a substitute for the cancelled three-nation SP70 self-propelled howitzer, between VSEL's AS90 and the M109 made by BMY of the US. Others also need to be made in response to rapidly evolving theories about how to deal with advances in Soviet armour: new platforms, notably helicopters, and new missiles. The choice mostly boils down to British/European designs versus British-made US designs.

The size of the Navy is a time-honoured popular issue. After the cuts of the past, the service can now at least moor its case to the bollard of the government's promise to maintain the number of destroyers and frigates at "about 50," even though it argues that it would need more to fulfil its Nato role properly. The government said it would order between two and four new frigates this year, and compromised at three. It needs to keep ordering about 2½ each year to keep the level up.

The amphibious assault ships Fearless and Intrepid, both over 20 years old, are expected to be modernised rather than replaced with new vessels.

Few projects are cancelled but some – like a new radar for the Navy's Lynx helicopters – are knocked off the "wish list."

Meanwhile, the Ministry has cut its civilian workforce by 100,000 since 1979, with Royal Ordnance being sold off to British Aerospace and dockyards being place under commercial management. Its six non-nuclear research establishments are due to be transformed into a new agency, at arm's length from the MoD, and on a proper commercial footing.

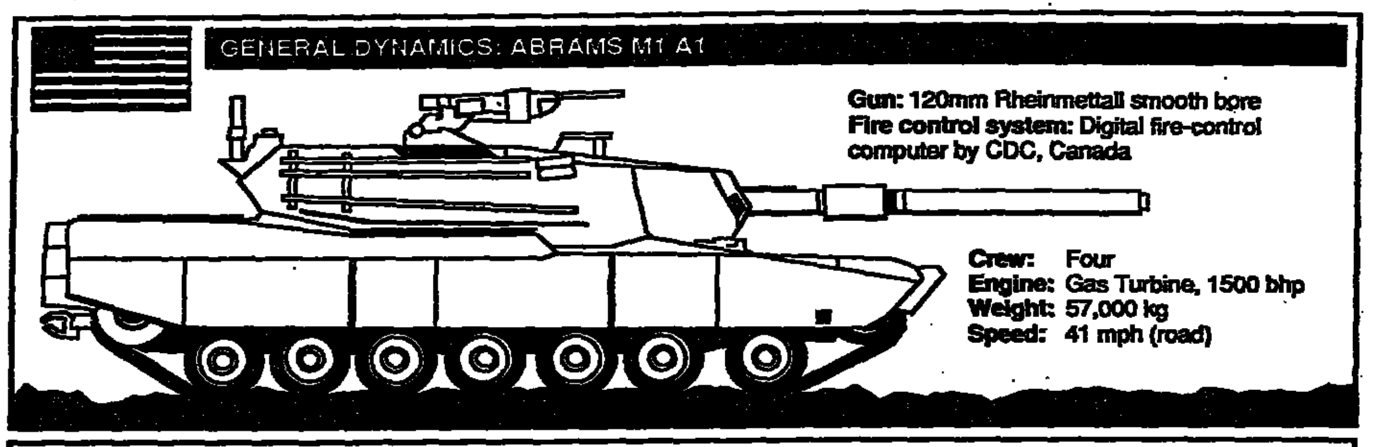
Far-reaching changes in procurement policy have been highlighted by scandals over projects that were caught in the transition: among others, GEC's Nimrod airborne early warning system, abandoned in 1986 after almost £1bn of taxpayers' money had been spent on it, and Ferranti's command and control system for the Type 23 frigate, cancelled last year. Seven of the frigates have been ordered; the first four will probably go to sea without the system they were meant to have.

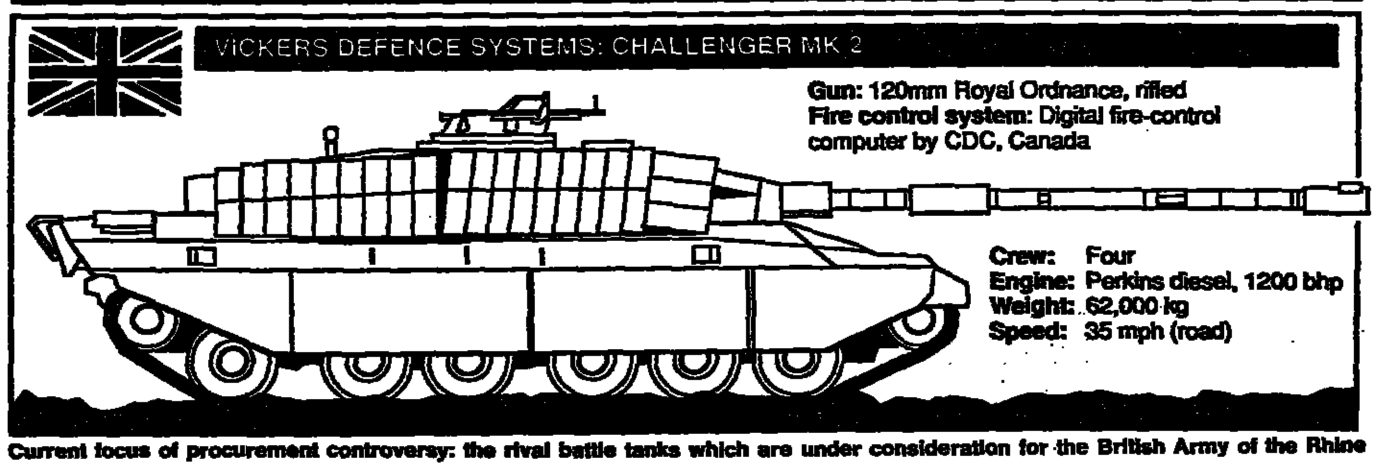
The last three or four years have seen a kind of cultural revolution. The cosy days when companies were simply nominated to carry out work have given way to increased and sharper competition and a more commercially-minded approach. The share of purchases decided by competition has risen from about 30 per cent to half or more – which, given the nature of the business is probably near the maximum, according to Mr Peter Levene, the Chief of Defence Procurement.

For the remainder, tougher terms have replaced the "cost-plus" contracts with inbuilt profit guarantees, although some of those contracts are still running. The figure of the prime contractor, who has to carry the can, has been imported from the US, and design and development responsibilities have been devolved.

"I hope the MoD has stopped putting itself into loser situations," comments one senior military figure at the Ministry.

David White

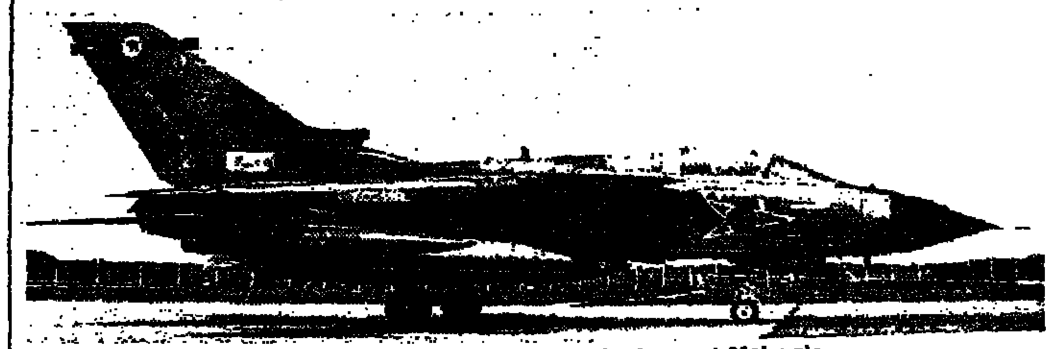




Current focus of procurement controversy: the rival battle tanks which are under consideration for the British Army of the Rhine

ARMS EXPORTS

Bumper year for UK



The Tornado fighter: sold this year to Saudi Arabia, Jordan and Malaysia

THE MINISTER of Information and Inspiration of the World Government of the Age of Enlightenment traces it all to the science of Maharishi Mahesh Yogi. But whatever the reason, peace and goodwill have definitely come back into fashion this year. The Gulf truce, settlement on Angola and Namibia, Soviet withdrawals from Afghanistan (if not an end to fighting), Vietnamese withdrawals from Kampuchea, a peace process between Libya and Chad – it is enough to make any self-respecting arms merchant wince.

Even before the outbreak of non-belligerence, new arms orders from Third World countries were in the doldrums. The drop in oil prices and debt problems have taken their toll in the 1980s. Top-notch weaponry is often beyond governments' means. They have tended to be less spendthrift than before and to keep old equipment going.

But for all the scarcity this has been a bumper year for British arms sales. In July a government-to-government framework agreement was signed for a second stage to a previous £5.5bn deal with Saudi Arabia, this time worth at least £10bn, including more Tornado air-defence and ground-attack fighters, more Hawk advanced trainers, half a dozen of the latest plastic-hulled minehunting vessels, base facilities and training.

This was followed by confirmation that Jordan was also buying Anglo-German-Italian Tornados, for some £400m, and a package deal with Malaysia, signed by Mrs Margaret Thatcher herself, covering yet a further 12 Tornado jets, air-defence radars and missiles, howitzers and light guns.

Since 1986 Britain's orders have raised it to the position formerly held by France as the world's main supplier after the Soviet Union and the US. Last year they totalled £3.5bn, after a peak of £5bn in 1986, against £2.9bn in 1985, and they will surge again when contracts for the new Saudi deal are completed. UK export sales officials can claim to have cornered 12 per cent of the world market. But the picture is somewhat distorted by the stupendous size of one client's expenditure, which in any case does not all go to the UK.

In actual trade flows, the statistics are more modest: exports of £1.23bn worth of identifiable military goods in 1987 after an unexciting few years at around £800-900m a year. Statistics published by the Stockholm International Peace Research Institute (SIPRI) on actual exports show the UK still behind France, at half the French level, last year.

What this year has shown is that the UK has moved into the kind of megadeals that France, with high-performance, low-price arms, used to get.

The Saudi purchases, paid for through liftings of crude oil, are linked to wide-ranging offset arrangements which aim to channel £1bn of UK investment into the country, matched by a similar volume from investors. British Aerospace, which heads the deal, already has 2,700 people in Saudi Arabia and expects to have 4,000.

Although the list of further Tornado customers may be limited, there are hopes that Kuwait may buy the aircraft in addition to the F-18 fighters it is buying from the US. Defence manufacturers are busily investigating other potential markets in the Middle East (including, eventually, Iran), North Africa and the Far East.

Overall, SIPRI figures show a pattern of ups and downs in the arms market over the past five years, even though global exports are shown as rising last year by 8 per cent in real terms (to $35bn) and sales to the Third World, which make up 70 per cent of the total, by about 14 per cent.

Developed markets are more closed. The UK itself places 75 per cent of equipment orders with UK firms, 15 per cent are accounted for by collaborative ventures, and only 10 per cent go abroad. As an exporter to the industrial world, according to SIPRI, Britain lies further down the list, in sixth place last year behind the US, the Soviet Union, West Germany, France and Czechoslovakia.

David White

Leading exporters of major weapons 1983-87

	1983	1984	1985	1986	1987	1983-87
1 USSR	9004	9 401	11416	10908	12262	52991
2 USA	11878	9937	8916	9985	11547	52244
3 France	3 460	4 096	4 152	4 378	3573	19 659
4 UK	1 077	1 928	1 777	1 693	1792	8 268
5 FR Germany	1 826	2 447	958	943	1444	7 615
6 China	973	1 227	943	1 302	1040	5 486
7 Netherlands	87	98	88	240	497	1 011
8 Sweden	32	107	156	322	380	996
9 Brazil	383	296	191	189	369	1 408
10 Czechoslovakia	312	335	225	276	321	1 469
11 Israel	386	252	211	179	268	1 296
12 Italy	973	865	551	327	247	2 963
13 Spain	545	400	119	210	177	1 451
14 Egypt	325	141	113	126	158	862
15 Canada	239	86	84	746	139	1 293
Others	1 223	990	694	587	890	4 384
World total	32 703	32 606	30 592	32 391	35 104	163 396

Source: Stockholm International Peace Research Institute. Countries ranked according to 1987 exports. Figures in US$m at constant(1985) prices

UK-based contractors paid £5m or more by MoD in 1986-87

British Aerospace (Aircraft)
British Aerospace (Dynamics)
The General Electric Co
The Plessey Co.
Rolls Royce
Vickers Shipbuilding & Engineering

£100m-250m
The British Petroleum Co
Vickers
Ferranti
Hunting Associated Industries
Racal Electronics
Royal Ordnance
Thorn-EMI
Westland

£50m-100m
British Railways Board
British Telecommunications
Dowty Group
Esso UK
Lucas Industries
General Motors
Pilkington Bros.
Philips Electronic and Associated Industries
The "Shell" Transport & Trading Co.
Short Bros.
STC
Swan Hunter Shipbuilders
Yarrow Shipbuilders

£25 - 50m
Austin Rover Group
British Airways
BTR
Civil Aviation Authority
Digital Equipment Co Ltd
FR Group
Smiths Industries
GKN
United Scientific Holdings
Marshall of Cambridge (Engineering)
Paccar UK
Vosper Thorneycroft (UK)

£10-25m
Avon Rubber
BET
The British & Commonwealth Shipping Co
British Shipbuilders
Cambridge Electronic Industries
Coats Viyella
Control Data
Cossor Electronics
Cranfield Institute of Technology
Cray Electronics Holdings
DRG
Frazer-Nash Group
Harland and Wolff
Hawker Siddeley Group
Hewett Packard
Honeywell
Mobil Holdings
Northern Engineering Industries
Petrofina (UK)
RCA
Remploy
Singer Link Miles
Systems Designers
UK Universities
United Kingdom Atomic Energy Authority
The Weir Group
Yarrow plc

£5-10m
Apricot Computers
BBA Group
BMARC
Bodycote International
Caledonian Aviation Group
Cap Group
The Charente Steamship Co
Chloride Group
Chemring Group
Commercial Shearing Inc
Conoco (UK)
Courtaulds
David Brown (Holdings)
F L Smith & Co (Holdings)
Ford Motor Co
George Blair
Gibraltar Shiprepair
Goodyear Tyre & Rubber Co (GB)
Hall Russell
Hogg Robinson Group
Humber Shiprepairers
IBM United Kingdom Holdings
Inchcape
J C Bamford Excavators
John Brown
Logica
Mactaggart Scott(Holdings)
ML Holdings
Martin-Baker Aircraft Co
Massey Ferguson Holdings
Meggitt Holdings
Portsmouth Aviation
The Rank Organisation
Readicut International
RFD Group
RHP Group
Ropner
Saft (UK) Schlumberger
Measurement &Control (UK)
Total Oil Holdings
Tozer Kemsley & MillbournHoldings
Watsham's
Waverly Electronics
Wills Group

Source: UK Defence Estimates. List includes suppliers of food, fuels and services. Within each financial bracket, contractors are listed in alphabetical order.

The threat of detente

Continued from page 1
suade the MoD that those interests will still be competitors for its own Marconi defence subsidiaries. Even if the ploy fails, the link with Siemens, which would also involve sharing the West German partner's defence business, could have far-reaching implications, as Europe's first major cross-border groupingin the military field.

Other European companies are contemplating similar moves, including Daimler-Benz and Thomson-CSF, which are both interested in UK links.

The opening of European arms competition is still at a very early stage. The main Community members buy relatively few weapons from each other, and armaments have up to now fallen outside the remit of EC measures. Opinions vary as to how much the Single European Market will affect the defence business after 1992.

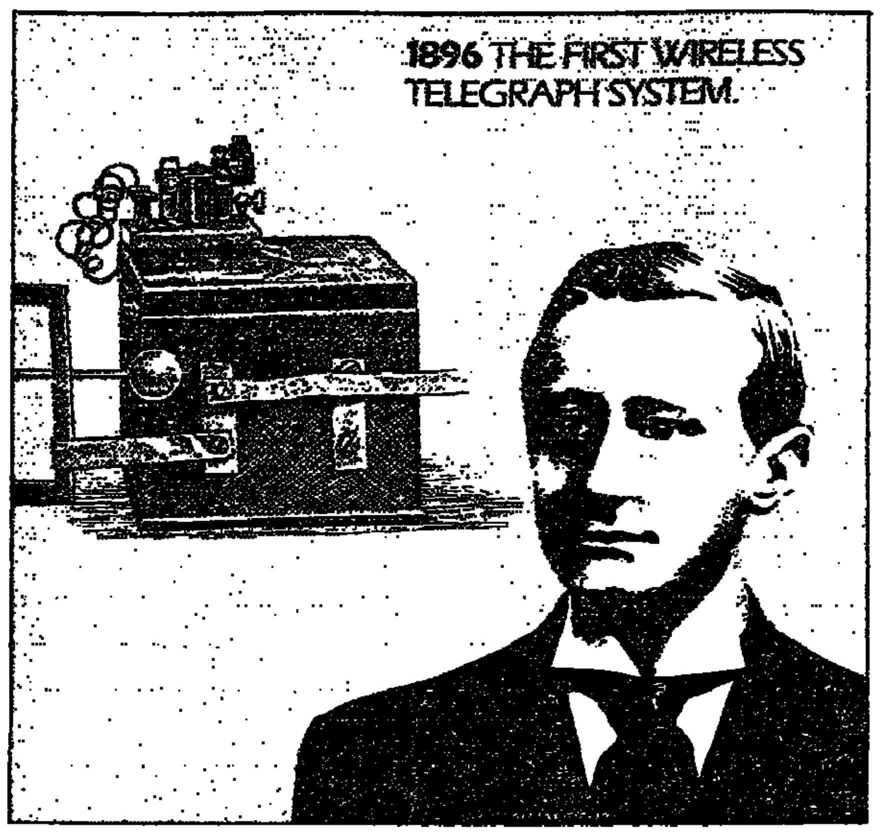
Military equipment is on the Commission's list of public procurement sectors to be opened up, but the only specific proposals so far have come from the European members of Nato, not all of whom are in the EC, through their Independent European Programme Group. Simply by a mutual supply of information, they plan to provide the means for companies to bid for contracts in any member country.

If that comes about, and if companies reorganise into competing groups that are not necessarily identified with one country, defence would begin to look more like any other industry. But, of course, it is not any other industry. Its clients are non-privatisable government departments. It depends on government co-operation and to a greater or lesser extent government funding for developing its products. It will never become fully competitive; in the UK, for instance, a sector such as nuclear submarines can hardly be anything but a monopoly. It is also a sector with strong vested interests, which can often invoke the cause of national sovereignty as a justification for continued existence. Real international competition would reveal it as another European industrial sector faced with serious over-capacity.

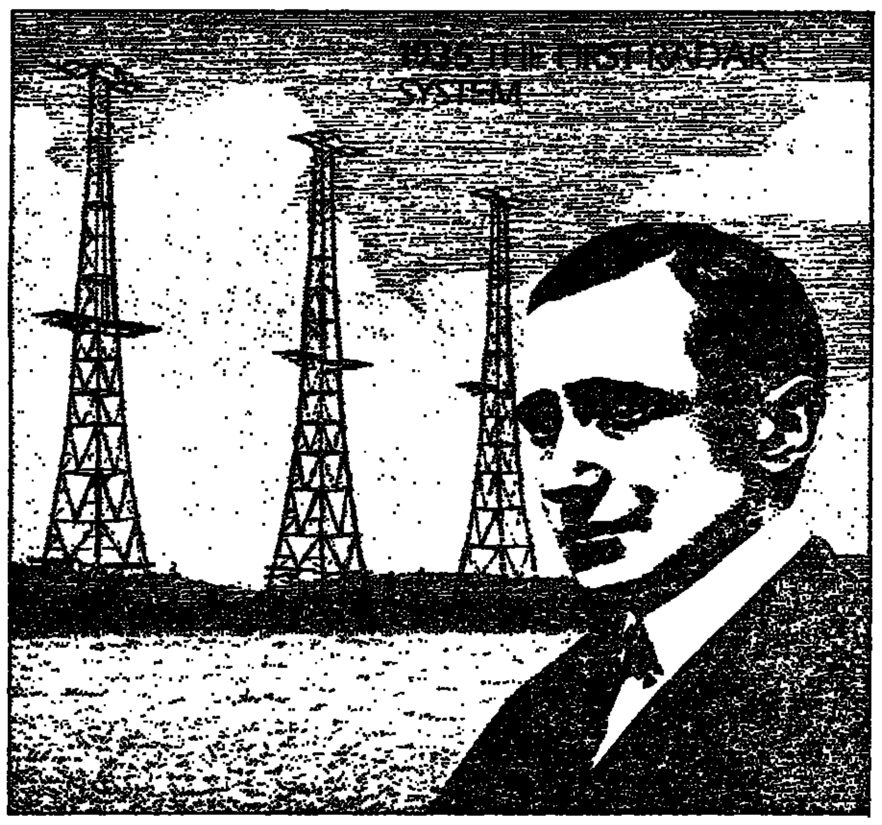
The attraction of trans-national groups would be to allow competition without creating national crises at every procurement decision, and to strengthen Europe's capacity against the colossal US defence sector and the largely untapped potential of Japanese producers, which in fields such as military communications could be considerable.

The different sets of initiatives, at corporate and government level, coincide with the emergence of a clearer European identity in defence. Since 1986 the enlargement of the European Community, the clarification of Spain's role in Nato, and the admission of Spain and Portugal to the Western European Union have created a greater overlap in the membership of the three institutions, with nine countries belonging to all of them.

Moves towards a unified defence market, however, are still only tentative. Few would go as far as the French in advocating a "Community preference." The US has already made its concern in this sphere patently obvious. There is a risk that defence could become mixed up with wider US-European Community trade wrangles. Getting defence issues tangled up with rows about agriculture is something that the Western alliance, at this crucial stage of East-West relations, could probably do without.


1896 THE FIRST WIRELESS
TELEGRAPH SYSTEM.


1928 THE FIRST AIRPORT
TRAFFIC CONTROL
DIRECTION FINDER SYSTEM.


1935 THE FIRST RADAR
SYSTEM.


1960 THE FIRST
HEAD-UP DISPLAY.


1974 THE FIRST EUROPEAN
MILITARY COMMUNICATIONS
SATELLITE SYSTEM.

France's nuclear deterrent still enjoys wide support, but there is conflict between:

Gaullist dogmas and policy needs

FRANCE HAS long stood out as one of the few countries in Western Europe to command a broadly-based popular consensus on defence policy and the role of nuclear deterrence. In Britain such a consensus has never existed, even if the leadership of the Labour Party is attempting to back away from the party's long-standing commitment to unilateral nuclear disarmament; in West Germany, a consensus once existed between the Socialists and the Christian Democrats but has been broken, largely as a result of the strident anti-Soviet rhetoric of President Reagan in his first term. But in France all the major parties, apart from the Communists, support the national nuclear deterrent.

Just why this should be so remains something of a puzzle. Conventional wisdom suggests that the consensus may be the direct consequence of France's post-Gaullist policy of national independence: France has not been a member of the integrated command structure of Nato for over 20 years, and the electorate may well support the national *force de frappe* precisely because it is in principle purely national, entirely independent of any decisions taken by the Alliance, and above all independent of any influence by the United States. But whatever the explanation, the bottom line is that France has for a number of years been free from the kind of protests which have created trouble in Britain and Germany.

The first consequence of this consensus is that successive French governments have faced no serious political opposition over the cost of the national defence programme, which at 3.7 per cent of GNP is at the top end of the Nato league table, even if it is smaller as a share of GNP than the defence budget of the UK and much smaller than that of the US. The 1989 defence budget of FFr182bn, an increase of 4.6 per cent on 1988, sailed through the National Assembly by virtue of the fact that virtually the entire "opposition" abstained, and only the Communists voted against.

Despite the high level of France's defence spending, Nato critics have sometimes tended to disparage the shortcomings of French defence equipment, which they put down in part to the high cost of the French nuclear programme.

French nuclear armoury on show: the missile "Pluton" at this year's July 14 military parade

Whether or not the criticism is fair, there is no doubt that the French national nuclear programme is expensive, at least compared with Britain's off-the-shelf purchase from the US. The regular upgrading of the programme, which includes six missile submarines as well as 18 land-based missiles and 18 Mirage IV aircraft equipped with stand-off missiles, takes around a third of the money spent on defence equipment, as it has done for a number of years; similarly, every year total spending on equipment has been getting a larger and larger share of the overall defence budget, rising from 47 per cent in 1985 to nearly 54 per cent in 1989. The corollary is that the government has been forced to find savings on running costs, notably by shaving back the numbers in uniform.

The trouble with France's defence consensus is that, while it has proved durably convenient in rhetorical terms at home, it is awkward and operationally inconvenient abroad. For the consensus is based on an implied claim that the mere fact of national possession of the nuclear deterrent confers an almost omnipotent ability to deny the possibility of war, and entails an isolationist posture which is unconvincing as a defence policy.

More serious, it is in conflict with the increasingly European and Atlanticist orientations of the rest of French foreign policy, as it has evolved under the presidency of Mr Francois Mitterrand, and it gets in the way of France's attempts to forge a more united European defence identity within the Atlantic Alliance. President Mitterrand inherited the Gaullist legacy in defence policy, and he has stuck to it as a matter of essential orthodoxy; whatever the views of the rest of Europe, whatever the opinions of the rest of the Atlantic Alliance, he has repeatedly ruled out any suggestion that France return to the integrated structure of Nato, or adopt Nato's strategy of flexible response.

At the same time, however, Mr Mitterrand has a commitment to the ideal of an increasingly integrated European Community, and a loyalty to the American alliance, which are completely un-Gaullist. As a result of the Euro-missile crisis in the early 1980s, which in effect broke the West German defence consensus, he spent much of his first seven-year term seeking ways of strengthening Germany's bonds with the West, by reinforcing France's security commitment to its European and Atlantic partners, in particular to West Germany.

Starting with the activation in 1982 of the dormant defence chapters of the 1963 Franco-German Treaty, and the 1983 Bundestag speech in which President Mitterrand urged the Germans to stand by Nato's policy to deploy the new Euromissiles, virtually every year has seen a new initiative designed to strengthen France's commitment to the defence of Europe. There has been the formation of the Force d'Action Rapide, which is supposed to enable France to intervene in the forward defence of Germany without France having to rejoin Nato; the re-activation of the seven-nation Western European Union defence grouping after 30 years of somnolence, and its recent expansion to include Spain and Portugal; the staging of a major Franco-German military exercise in Germany; the formation of a joint Franco-German brigade; and most recently the creation of a high-level Franco-German Defence Council.

So long as France sticks to its Gaullist dogmas, it is not obvious how much weight should be attached to these initiatives as operationally effective contributions to the defence of Europe: in the end, real defence co-operation will require shared defence doctrines, and for the foreseeable future the defence doctrines of Germany will be those of Nato, not those of France. On the other hand, there is no doubt of the *political* significance of President Mitterrand's manifest concern with the question of Europe's defence, and of his desire to strengthen France's links with West Germany.

Making the conversion of political symbolism into effective policy is not easy. President Mitterrand is still worrying away at the problem of creating a European pillar for the Atlantic Alliance, but as he disarmingly revealed in his recent strategy speech to the Institut des Hautes Etudes de Defense Nationale, he is now somewhat at a loss to discern the way forward.

The chances are that the way forward may well be defined in part by the conciliatory diplomacy of Mr Mikhail Gorbachev, and by the opening of conventional arms control negotiations which will bear directly on Europe's security arrangements. Hitherto, France has rigidly refused to have anything to do with the nuclear weapons negotiations between the super-powers: Salt in the 1970s and the Euro-missile and Start talks in the 1980s. By contrast, France is already involved as a participant in the conventional force talks due to open in Vienna, and if the Soviet Union should appear ready to offer a reasonable deal on deep asymmetrical force cuts, it seems almost inevitable that the West would have to reassess its defence needs in Europe, and how those needs should best be met. Automatically, the European members of Nato would need to review their contribution to a new Nato line-up; almost automatically, France would have to be involved in such a reassessment, alongside its Nato allies.

Ian Davidson
Paris

ARMAMENTS COLLABORATION

A new emphasis

A NEW emphasis has emerged in Europe's efforts to co-operate in armaments. It is rather like a neighbourhood gang that has decided to change the game it plays: instead of chumming up all the time, the members will fight amicably among themselves.

A plan approved at a meeting in Luxembourg last month by Defence Ministers of the 13 Nato countries in the Independent European Programme Group (IEPG) is designed to lead to a much more open market in which governments are more ready to place orders outside their home manufacturing base.

The idea is that by exchanging items of defence equipment, countries can spare themselves the wastage involved if all produce the same things.

The initiative, still in its infant stage, would seem in some ways to be at loggerheads with the collaboration principle — open competition versus joint efforts — but it is conceived as another means to the same end, to avoid duplication and save costs.

The change in focus does not mean that collaboration is dead. Far from it, collaboration is often the only way for major projects which require a large input into research and development. Last month's IEPG meeting also saw, after some months' unnecessary delay, the official launch of the development programme for the £22bn European Fighter Aircraft (EFA), involving Britain with West Germany, Italy and Spain.

The difficulty of any European country going it alone any more in fighter aircraft is underlined by the financial problems faced by neutral Sweden with its JAS-39 Gripen small multi-role combat aircraft and by the cold feet that France is having about its alternative to the EFA, the Rafale.

France, the most self-sufficient of Europe's defence producers, has notably warmed up to the theme of co-operation, and has become a leading proponent of pooled efforts in research and technology.

The need for collaboration in major programmes is twofold. First, a proliferation of different items of, say, communications equipment or ammunition does nothing for an alliance's potential effectiveness.

Air Chief Marshal Sir David Evans, military adviser to British Aerospace, commented recently on the current absence of an inter-operable Identification Friend or Foe system. "If we went to war this year or next, or the year after that, we could end up shooting down numbers of Nato aircraft, of which we do not have enough to start with."

The second reason is the mismatch between the scale of costs, which escalate between each generation of equipment, and the size of national markets. The cost factor has up to now undoubtedly been the main motor behind co-operation; ventures have been pushed into being by necessity rather than pulled by political good intentions.

Ventures have been pushed by necessity rather than pulled by good intentions

Collaboration has been around long enough, however, for its problems to show. The potential management problems of an international venture were exemplified by the Anglo-German-Italian SP70 self-propelled Howitzer, cancelled in desperation early last year. UK officials described it as "bureaucracy gone mad," or "a headless monster." The lesson led to an insistence on having a prime contractor set up to take responsibility: or, in the case of the EFA, because of its size, two prime-contractor consortia, one for the airframe and one for the engine.

Cost savings tend to be offset by the add-on costs of involving different countries. Tight fixed price conditions are being set on the EFA manufacturers to discourage them from over-running, and Britain held back its participation in the Trigat anti-tank guided-weapon programme, in which France and West Germany are the main partners, until its demands on contract terms were satisfied.

Delays have also been endemic. It has become a rule that development of a new system takes longer when more than one country is involved. No partner is necessarily more virtuous than others. Britain joined West Germany for part of a Euro-US air-to-air missile programme, the European side being the short-range Asraam, destined to replace the Sidewinder. But the project lagged so much that Britain had to take over responsibility for it this summer.

One senior British figure says he is torn as to whether the ideal number of participants is two, the minimum, or three, the minimum needed to break an impasse.

There is a history of countries dropping out of projects, such as Britain's withdrawal from the NH90 navy and troop transport helicopter, or France's from the EFA. Doubts now hang over the Nato frigate replacement NFR90, involving eight countries including the US and Canada.

Other instances demonstrate that it is possible to have collaboration and still suffer from rivalries and overlaps. The EFA and Rafale are again a case in point, and the European helicopter business has rag-bag of alliances: the UK and Italy in the EH101 naval and utility helicopter (delayed), those two plus the Netherlands and Spain in an army attack helicopter, the French and Germans in another family of attack helicopters, and the French, Germans, Italians and Dutch together in the NH90.

This year's UK Defence White Paper lists 32 projects involving the UK with other European countries, ranging from equipment already in service to projects under study. The partners in these projects — 12 countries in all, including the US and Canada — fall into 24 different permutations.

Responding to some of the suggestions made in a report it commissioned from an independent panel two years ago, the IEPG has plotted another course for making the European arms business more competitive — by encouraging it to compete.

Its so-called action plan, which sets its sights on "a stepwise build-up of a European armaments market," foresees the removal of obstacles to trade in arms between its membersand calls on them to make information available to each other about impending contracts.

Continued on next page

WEST GERMANY

Merger adds export muscle

THE WEST German defence industry is currently dominated by two related developments: the imminent takeover of Messerschmitt-Boelkow-Blohm (MBB) by Daimler-Benz and Germany's growing importance as an arms exporter.

Although the Daimler takeover has been master-minded by the Government to ensure weightier financial and management backing for Germany's part of the European Airbus project — presently controlled by MBB — a related effect is to create an extraordinary concentration in the domestic defence industry.

It is estimated that the merged conglomerate will eventually swallow up 70 per cent of the Federal Republic's defence research budget and 60 per cent of domestic defence orders.

On top of Daimler's own defence interests and those of its subsidiary Dornier, the aircraft company, MBB will add its part of the four-nation European Fighter Aircraft, the Franco-German PAH-2 anti-tank helicopter and the Columbus, Ariane-5 and Hermes space projects.

MBB has also been benefitting from sales of Tornado aircraft in the Middle East and has a 42.5 per cent stake in Tornado production.

Underlying this merger, and indeed one of the rationales for it, is the quiet expansion of West Germany's defence export industry. In defence, as in other industries, development costs are escalating so fast that both multi-nation and multi-company projects are increasingly required to pool those costs and stimulate sufficient demand to recoup them. Daimler's interest in closer ties with British Aerospace appears to be predominantly in non-military fields but some co-operation in the military sector can also be expected.

But is West Germany's increasingly active participation in many of the multi-nation defence projects and the higher profile of the defence industry evidence that the country is throwing off the restrictions imposed by the militarism of the Nazi period? Is it, in other words, shaking off its long "post-war" period in this sector?

The answer seems to be yes and no. In the value of its defence exports Germany is *starting to look no different* from the other major industrial countries. According to the annual report of the US Arms Control and Disarmament Agency, Germany exported \$6.55bn worth of arms 1982-1986, with the bulk going to Latin America, the Middle East and Turkey.

This seems to be a much higher figure than any admitted to in Germany. The Economics Ministry in Bonn recently said that the country's arms exports amounted to about Dm2bn between 1984 and 1986.

West Germany's developing country arms sales during the 1982-1986 period of \$5.52bn were higher than Britain's, put at \$5.11bn, but well behind those of France (\$20.1bn), the US (\$28.5bn) and the Soviet Union (\$78.7bn). Germany's overall arms sales in the 1982-1986 period leave it on a similar level to Britain (\$6.9bn) and China but a long way behind the big three - France, the US and the Soviet Union.

It appears from the regional breakdown of these figures that Germany is relaxing its traditional policy of not selling arms to out of Nato areas of conflict. But that may not be entirely fair. For as the industry becomes further involved with multi-nation projects its exports are increasingly determined by the less restrictive policies of its partner nations.

This does however lead the industry and the government into some rather absurd moral twists. For having accepted, since the early 1980's, that partners have a right to sell weapons wherever they can without German veto, the country is hoping to reap the economic rewards without bearing the moral responsibility.

The silliest recent example of double-think came when widespread protest forced the Finance Ministry to withdraw its plan to use a state-controlled bank to provide Germany's share of the credit guarantees for the sale of eight Tornado bombers to Jordan. The other Tornado partners, especially the UK, which sold the bombers in the first place, had hoped that as there were no objections to the sale and to the extra business for MBB, that the credit would be forthcoming despite the fact that Hermes, the state credit finance body, is forbidden from backing such projects.

This was the first time since the relinquishing of the German veto on out of Nato sales that the credit issue had arisen. It was also especially sensitive as the country involved is on the front-line with Israel, although scarcely any longer a front-line enemy.

In the Jordan case it appears that the UK will have to provide most of the credit itself but pressure from defence manufacturing partners will grow and at some point the anomaly will presumably fade away.

David Goodhart
Bonn

The Strategic Arms Initiative goals have become less ambitious

Star Wars debate goes on

ANY FUTURE biography of President Reagan is likely to devote several hefty chapters to the Star Wars programme – more correctly the Strategic Defence Initiative – which has been one of the major legacies of his two terms of office.

The programme was launched in 1983 after a now-famous speech by the President in which he spoke of his vision of a defensive space-based system that could protect the US and its allies from nuclear attack.

The SDI scheme is still very much alive, although the money being spent on it is far less than what President Reagan had in mind.

The US Congress voted less than $4bn for the programme for the fiscal year that ended in October, a long way short of the $6bn that the SDI Organisation, the Pentagon body set up to administer the programme, was hoping for 1988 only two years ago.

SDI is one of President Reagan's major legacies: seen here with Caspar Weinberger, former US Defence Secretary, who oversaw the programme's launch

The basic aim of the programme remains as it was – to construct a system centred on satellites and ground-based weapons that would be capable of shooting down Soviet missiles before they reached their targets in the West.

Under such a system, sensors and computers, which would be distributed both on the earth and in space, would play a vital part in detecting missiles and in co-ordinating the efforts to destroy them.

Star Wars has been highly controversial. It has been praised as a statesmanlike enterprise which could eventually blunt the use of nuclear weapons and make world peace more likely.

Critics have, on the other hand, pilloried the initiative as no more than technological day-dreaming which is unlikely ever to lead to an operational system and which – despite its opposite aims – promises to make nuclear war more rather than less probable.

After five years of a programme which has so far spent more than $10bn on technological development, the arguments about SDI show no sign of abating. They are, however, more muted than was the case in 1985 and 1986 when the programme was rarely far from the headlines.

Although the basic philosophy of Star Wars may be the same, the details have changed over the past five years.

Some of this has resulted from the smaller amounts of cash going into the project than had been envisaged – which has forced alterations to planned technological developments.

The technologies now being talked about for Star Wars are less exotic and the goals for the scheme have become more pragmatic.

At the start, the SDI Organisation was talking about a future defensive system being based on highly advanced technologies involving, for instance, weapons based on laser beams and so-called rail guns – space-based machines which would shoot down missiles by firing electromagnetically-accelerated pellets.

Many of these ideas have disappeared, at least for the time being. The Pentagon now believes that an initial operational system could be based largely on conventional technologies – small rockets based either on satellites or on the ground – which could be put in place by the mid-1990s at a cost of an estimated $69bn.

This so-called "scaled-down" version of SDI would not attempt to stop all the missiles directed at the US in any hypothetical Soviet first-strike. But by providing enough doubt in the minds of the Soviet military establishment that the weapons might not get through it would – so the system's proponents believe – make the USSR less likely to launch a nuclear attack and thus help deterrence.

Along with this has come a change in political thinking related to the SDI. Soon after the programme started, Lt General James Abrahamson, head of the SDI Organisation, was wont to discuss how his project was basically assembling data ready for a grand decision in the early 1990s over whether the US should start work on a deployable system.

That stance, too, has gone – as will Gen Abrahamson, who is retiring from the programme early in the New Year largely for personal reasons. "The US realised it didn't make cataclysmic decisions of this type," says Mr John Pike, associate director for space policy at the Federation of American Scientists in Washington.

In place of any major undertaking of this type, says Mr Pike, may come a series of less major moves in which relatively small elements of a working system are likely to be put into place in steps during the 1990s.

The first of such moves is likely to be the basing in space of sensors to detect any possible missiles rising from Soviet silos. That could be followed in stages by other parts of the kind of system that the Pentagon has in mind.

Some observers have questioned whether the SDI programme is still necessary, given the general warming in relationships between the US and the Soviet Union, which has been another feature of President Reagan's term of office.

Others believe that the ideas behind the programme are fundamentally flawed on the basis that a defensive system of this nature could become a means of stopping Soviet rockets fired in retribution to a US nuclear strike. The thought that the US might be preparing for such a pre-emptive attack could, according to this view, push the Soviet Union into becoming more warlike than it might otherwise be, making a nuclear war more rather than less likely.

Mr James Frelk, director of the George C. Marshall Institute, a Washington-based think-tank which supports Star Wars, firmly rejects these theories. He says the work so far done on Star Wars has been "a great achievement" which should eventually lead to a slowing in the build-up between the superpowers of armaments and a reduction in tensions.

Over the next two years, the SDI programme is due to move into a higher gear, with a series of technologically interesting tests, both in space and on the ground, that should provide more scientific data on whether the scheme would work or fail. What has, however, still to be resolved is the degree to which the next Congress will support the project with hard cash – a factor which is likely to be just as important as technology in influencing whether Star Wars has a future.

Peter Marsh

Collaborative Projects in Development or Early Study Phases

Project	Can	D'mark	France	G'many	Italy	N'lands	N'way	Spain	Turkey	UK	US
NAVAL EQUIPMENT											
NATO Frigate replacement(NFR90)	●		●	●	●	●		●		●	●
Ships Low Cost Navigation System	●					●		●		●	
LAND EQUIPMENT											
COBRA (Counter Battery Radar)			●	●						●	
Multiple Launch Rocket System Phase 111			●	●						●	●
MISSILES											
Modular Stand-off Weapons	●		●	●	●			●		●	●
TRIGAT(Third Generation Anti-Tank Guided Weapon)			●	●					●	●	
Advanced Short-Range Air-to-Air Missile				●			●			●	
NATO Anti-Air Warfare System	●		●	●						●	●
Family of Anti-Air Missile Systems			●		●					●	
AIR SYSTEMS											
Airborne Radar Demonstrator System			●							●	
European Fighter Aircraft				●	●			●		●	
EH 101 Helicopter					●					●	
A129 Light Attack Helicopter					●	●		●		●	
RTM 322 Helicopter Engine			●							●	
OTHER EQUIPMENT											
NATO Identification System (NIS)*	●	●	●	●	●	●		●	●	●	●
NIS,Question and Answer Component Development	●	●	●	●	●			●		●	●
Ada Computer Language Project Support Environment	●		●	●	●	●	●	●		●	●
Multifunctional Information Distribution System	●		●	●	●		●	●		●	●
Midget Post-Design Services	●		●	●						●	

Source: UK Defence Estimates 1988 * Also involving Belgium

New emphasis in armaments collaboration

From previous page

The approach of the single European market after 1992 has helped to spur these moves on. Of the IEPG's 13 members, all but Norway and Turkey are European Community members. The EC's Rome Treaty allowed members their own policies for "arms, munitions and war material," with an agreed list of items exempted from Community measures. But the 1986 Single European Act, which brings defence into the domain of EC concerns, also covers armaments, by expressing members' determination "to maintain the technological and industrial conditions necessary for their security."

The IEPG dates back 12 years but has met at ministerial level only for the last four, and then irregularly, about once a year. Britain, which takes over the chair from Spain for the next two years, aims at more meetings.

The open bidding proposal was on the initiative of the UK, which has pioneered the arrangement on a bilateral basis with France. In March, the French authorities started publishing, and circulating in the UK, the same kind of defence contracts bulletin that Britain has produced since 1986. The two countries, which have held a series of three seminars on different equipment areas, have embarked on "cross-purchases," buying in each other's markets on a reciprocal basis.

The IEPG idea is to extend the publication of contract openings throughout the group by the end of next year. Moving from this to a real market will not happen overnight. Transitional provisions have had to be written in to protect the three industrially weakest countries in the group, Greece, Turkey and Portugal.

Exchanges are to follow the principle of "fair return," which means that the IEPG will have to keep track of trade flows. Organised now by one British official at Nato, and even then as only part of his job, the group is due to get a permanent secretariat.

The action plan recognises that "there might be a potential conflict between the *juste retour* and the call for competition." But reciprocity is seen as a necessary bait to gain acceptance for opening the procurement process, given the large industrial interests at stake.

Some sectors will remain closed: neither Britain nor France, for instance, is about to put nuclear weapons or nuclear-powered submarines out to international tender. But members will be asked to list their closed sectors and justify them.

In the long run, the initiative can be expected to lead to greater specialisation between the various European industries.Some will find that hard to accept, but it is the price for staying in the game.

David White

Paratroopers of Japan's 1st Airborne Brigade, training at Narashino, near Tokyo

JAPAN

An evolving policy

OFFICIALLY, Japan is aiming to become the first country in history to have enormous economic and political power without backing it up with a strong military force.

And there is just a chance that this gambit may succeed. In the first place, there is no obvious need for Japan to be a military power. There is no political vacuum in Asia as there was in the 1930s, and no Western colonial power to oust from the region.

Second, Japan's neighbours plus the vast majority of the Japanese people do not want the country to be a military power. Indeed, the Japanese are so sensitive about the prospect of militarisation that most government leaders accept that it will be politically impossible to raise military spending much above the current level of 1 per cent of gross national product in the foreseeable future.

However, that framework is too simplistic. There are many gradations between being a major military power and being totally demilitarised, and the Japanese authorities are constantly having to re-assess their circumstances to try and find the right level.

If they put too much effort into defence, they risk antagonising people at home and abroad. If they put in too little, they will be accused of not contributing enough to the collective defence of the West. Also, as in other industrialised countries, there are pressures from defence industries in Japan, which claim that enhanced defence spending is essential for them to keep abreast of leading edge technologies.

Japan's defence policy has advanced from an essentially pacifist stance 40 years ago to one of taking a considerable responsibility for self-defence and an increasing role in backing up the US commitment in the region. Under the postwar constitution, Japan renounced the rights of belligerency and the possession of arms. However, the Government has gradually expanded its definition of self defence over the years and deepened its military relationship with the US.

For example, in the early 1980s, as the Japanese people became more aware of the threat from the Soviet Union, it became politically possible for the government to accept specific roles in the collective defence effort. The three missions agreed on were:-

- To defend the Japanese archipelago from limited air and land attacks.
- To block the three straits through which the Soviet navy passes by Japan to reach the Pacific.
- To protect the sealanes for 1,000 nautical miles southward.The Government also embarked on a five year equipment build up programme in 1983 to enable its forces to fulfil these missions.

The result is that Japan's defence commitment at the moment is very large by any measure. Its overall defence budget of Y3,700bn ($29bn) in the current year makes it the third largest military spender in the world, after the US and the Soviet Union, although the figure is bloated by the relatively high salaries of its volunteer forces. Under the five-year build-up programme, its defence budgets will continue to grow by more than 6 per cent a year in real terms at least until 1991.

Despite the size of this build-up, there is every indication that the Japanese have got it about right with the current stance. On the one side, the US administration appears at last to be content that Japan is making a contribution to the overall collective defence effort of the West that is consistent with its size and economic strength. On the other, neighbouring countries and the majority of the Japanese people seem to be fairly comfortable as well.

However, there are groups both in the US and in Japan which would like to see the country doing much more. Many US Congressmen are upset that Japan spends only 1 per cent of its GNP on defence compared with the US's 6.6 per cent, and demand that the country raise its share of the burden. A small minority of Japanese nationalists would like to see the country become a self-sufficient military power.

Meanwhile, many Japanese manufacturing companies are putting pressure on the Government to increase its defence procurement. Until now, the country's military equipment industry has been stunted in part by limited procurement budgets (Y18,400bn in the current five year plan) and, more important, by a government policy prohibiting the export of weapons. The export prohibition is weakening somewhat because of the emergence of so many dual purpose technologies.

It is difficult, for example, to stop the export of semiconductors that will ultimately end up in a guided missile or jet fighter. However, no one expects Japan to be exporting complete weapons, such as missiles or tanks, for the foreseeable future.

Consequently, the industries making these and other sophisticated military products will have difficulty generating sufficient volume to become internationally competitive.

The one exception to this pattern is likely to be military aircraft. The Japanese aerospace industry put enormous pressure on the Government to spend the extra money to develop an indigenous fighter rather than buy one from the US and virtually won its case last year.

The new FSX programme of 130 fighters is to be a joint US-Japanese development of the General Dynamics F-16 fighter, but about two thirds of the development will be done by the Japanese.

Japan's defence policy is continuing to evolve. The two simmering questions at the moment are the country's participation in overseas peace-keeping operations and the establishment of security relations with other Western allies. Until now, Japan has eschewed security alliances with all countries except the US, but there is more and more interest in developing ties with the North Atlantic Treaty Organisation (Nato), with which it has much in common.

Last year, Japan was sharply criticised by Western countries for refusing to send minesweepers to help protect shipping in the Gulf. The Government decided such a move would not be accepted by the Japanese people, on the grounds that the country should not send soldiers overseas. However, it asserted at the time that it would not be unconstitutional to do so, thus setting the stage for such interventions at a future stage.

It has already moved one step in that direction, sending civilians to monitor the Soviet withdrawal from Afghanistan and to assist in monitoring the ceasefire between Iran and Iraq.

Ian Rodger
Tokyo

FT UNIT TRUST INFORMATION SERVICE

• For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

AUTHORISED UNIT TRUSTS

Anthony Wieler Unit Tst Mgmt Ltd (1000)F
19 Widegate St, London E1 7HP 01-377 1010

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Growth Income	5	97.36	99.73	106.1	1.40	40089
Do Accum	5	136.9	140.2	149.2	1.40	40090
Quarterly Income	5	52.13	54.34	57.81	7.00	40091

Arkwright Management (1400)F
1 King St, Manchester M60 3AH 061-832 0242

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Growth Dec 6	5	90.62	90.62xd	96.40	2.55	40092
Income Dec 6	5	46.39	47.23	50.24	4.90	40093

Asset Unit Trust Mngrs Ltd (0900)F
4 Battle Bridge Lane, London SE1 2QE 01-378 1850

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Growth Nov 15	5	97.50	97.50xd	103.59	1.95	40094
Income Nov 15	5	100.92	100.92	107.23	5.49	40095

CCL Unit Trusts Ltd (1400)F
74 Shepherds Bush Green, W12 8SD 01-740 7070

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
UK General Tst	5½	45.41	45.41	49.27	2.62	40217
Global Tst	5½	36.04	36.04xd	38.70	2.30	40218
Recovery Tst	5½	46.74	46.74	51.77	2.61	40219

CIBC Unit Tst Managers plc (1200)H
Cottons Ctr, Cottons Lane, Ldn, SE1 2QL 01 234 6000

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Growth Fd Acc	5	88.52	89.91xd	94.89	3.50	40220

CS Fund Managers Limited (1000)H
125 High Holborn, London WC1V 6PY 01-242 1148

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
CS America	5	47.75	47.75	50.80	0.98	40221
CS International	5	48.89	48.90xd	52.02	2.17	40222
CS Japan	5	112.1	112.2	119.3	0.42	40223
CS Portfolio Inv	5	58.12	58.13xd	61.84	3.18	40224

London & Manchester (Tst Mgmt) Ltd (1000)H
Winslade Park, Exeter EX5 1DS 0392 282673

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
American	5	27.70	28.03xd	29.76	0.8	40828
General	5	46.58	46.78xd	49.66	3.6	40829
Income	5	43.57	43.89	46.59	5.6	40830
International	5	33.77	34.10	36.20	0.9	40831
Japan	5	50.09	50.42	53.51	0.0	40832
Tst of Inv Trusts	5	35.12	35.69	37.89	2.0	40833

M & G Securities (y) (0915)H
Three Quays, Tower Hill, EC3R 6BQ.
Cust Services 01-626 4588 Unit Dealing 0245 266266

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Amer & General	5	188.87	188.9	199.8	1.42	40834
(Accum Units)	5	225.44	225.5	238.5	1.42	40835
Amer Recovery	5	209.99	211.6xd	224.3	1.00	40836
(Accum Units)	5	233.78	235.6	249.7	1.00	40837

Rock Asset Mgmt (Unit Trust) Ltd (0905)F
Park View House, Front Street, Benton
Newcastle upon Tyne NE7 7TZ (091) 215 0077

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Exempt Managed	5	47.90	48.29	51.37	2.43	46071

N.M. Rothschild Fund Mgmt (1000)F
St Swithin's Lane, London EC4 01-634 2983/4

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
NC America (Inc)	5	239.05	239.05	255.92	1.39	41196
NC America (Acc)	5	265.83	265.83	284.58	1.39	41197
NC Income	5	104.92	104.92xd	111.84	5.09	41198
NC Japan	5	212.13	212.13	226.12	0.00	41199
NC Major UK Cos	5	55.74	55.74xd	59.40	3.07	41200
NC Smllr Austrln	5	70.27	70.27	74.90	1.93	41201
NC Smllr Canda Co	5	34.83	34.83	37.34	1.51	41202
NC Smaller Cos	5	186.10	186.10	202.53	2.13	41203
NC Smaller Euro	5	156.52	156.52	166.96	0.83	41204

Royal Bank of Canada Funds (1500)F
71, Queen Victoria St, London EC4V 4DE 01-489 8378
RBC Trust Managers Limited

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Select Gwth Acc	5	53.53	53.53	57.25	2.23	41206
Select Income	5	58.44	58.44	62.50	3.89	41207
Select Inc Acc	5	62.72	62.72	67.07	3.89	41208
Select N American	5	43.37	43.37	46.38	2.16	41209
Select Intl	5	36.52	36.52	39.05	1.65	41210

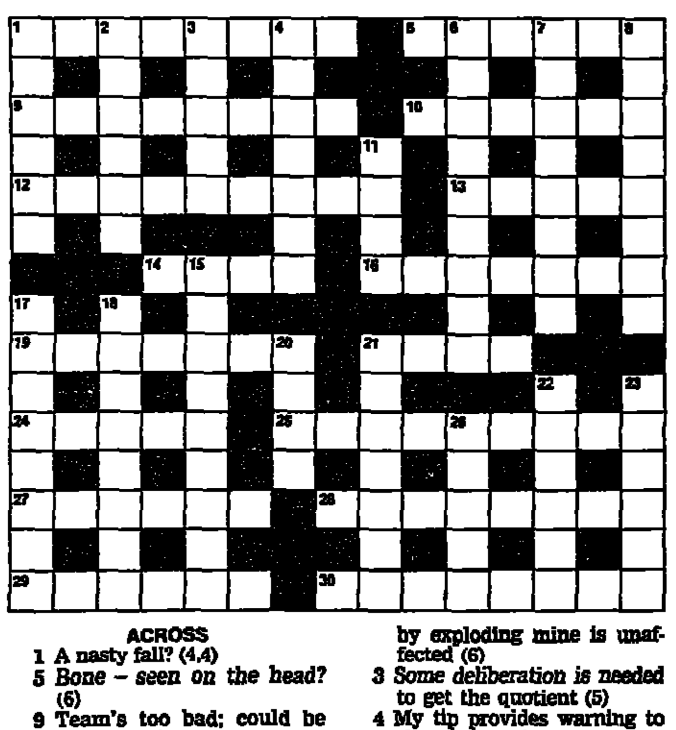
I.G INDEX LTD, 9-11 GROSVENOR GARDENS, LONDON SW1W 0BD
Tel: 01-828 7233/5699 Reuters Code: IGIN, IGIO

FT 30	FTSE 100	WALL STREET
Dec. 1432/1441 -9	Dec. 1754/1764 -10	Dec. 2141/2153 +6
Mar. 1447/1456 -9	Mar. 1773/1783 -10	Mar. 2163/2175 +6

Prices taken at 5pm and change is from previous close at 9pm

CROSSWORD

No.6,809 Set by QUARK



ACROSS

1 A nasty fall? (4,4)
5 *Bone – seen on the head?* (6)
9 Team's too bad; could be thrown? (8)
10 *Starting price has gone out – as going is like this?* (6)
12 In variety, turn with English odes to go to waste (3,2,4)
13 Nothing in Roman poet is suggestive of egghead (5)
14 Standard to fall back (4)
16 Drink for army unit of the highest quality (7)
19 Take some point (e.g. 'ere) as an individual entity (7)
21 You can't say you haven't got it! (4)
24 Newspaper cover (5)
25 It's a movement to measure period of calm, we hear (9)
27 Worker at the fringe shows composition (6)
28 Spilt beer in the building plant (8)
29 Expensive item (a mineral source) provides wild excitement (6)
30 This provides a frame for the rest (8)

DOWN

1 Flower with name behind (6)
2 Greek character surrounded by exploding mine is unaffected (6)
3 *Some deliberation is needed* to get the quotient (5)
4 My tip provides warning to those at sea (7)
6 *Although unprepared, I'm to* give a hint to leader of union (9)
7 Recluse about to put on man *of capital* (8)
8 Comparatively fashionable aim in one having a go (6)
11 Probability, expressed as 3 (4)
15 Period when I didn't do much is astronomical in length! (5,4)
17 Court official a payment b-butters up? (8)
18 Witness at the match before (8)
20 The ceremony is appropriate for an audience (4)
21 To set against, get cap more on the tilt (7)
22 Salute always in the Engineers (6)
23 I've somehow got in front like a threat (6)
26 Draft papers (5)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday December 24.

GUIDE TO UNIT TRUST PRICING

INITIAL CHARGES
These represent the marketing, administrative and other costs which have to be paid by new purchasers. These charges are included in the price when the customer buys units.

OFFER PRICE
The price at which units may be bought.

BID PRICE
The price at which units may be sold.

CANCELLATION PRICE
The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, unit trust managers quote a much narrower spread. As a result, the bid price is often set well above the minimum permissible price which is called the cancellation price in the table. However the bid price might be moved to the cancellation price in circumstances in which there is a large excess of sellers of units over buyers.

TIME
The time shown alongside the fund manager's name is the time at which the unit trusts' daily dealing prices are normally set unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: ψ - 0001 to 1100 hours; ♣ - 1101 to 1400 hours; ♦ - 1401 to 1700 hours; φ - 1701 to midnight.

HISTORIC PRICING
The letter H denotes that the managers will deal on a historic price basis. This means that investors can obtain a firm quotation at the time of dealing. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis.

FORWARD PRICING
The letter F denotes that prices are set on a forward basis so that investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper show the prices at which deals were carried out yesterday.

Other explanatory notes contained in last column of the FT Unit Trust Information pages.

FT UNIT TRUST INFORMATION SERVICE

● For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

TSB Unit Trusts (y) (1000)F
Charlton Pl, Andover, Hants. SP10 1RE 0264 63434

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
TSB American	6	93.14	93.90	99.89	2.12	41457
Do Accum	6	97.97	100.78	107.21	2.12	41458
TSB Brit Growth	6	51.95	51.95	55.27	3.48	41459
Do Accum	6	54.36	54.36	57.83	3.48	41460
TSB European	6	51.28	51.28	54.55	1.07	41461
Do Accum	6	52.67	52.67	56.03	1.07	41462
TSB Extra Income	6	141.47	144.94	154.19	6.13	41463
Do Accum	6	182.61	187.09	199.03	6.13	41464
TSB Smaller Cos	6	49.55	51.65	54.95	1.91	41465
Do Accum	6	50.43	52.56	55.92	1.51	41466
TSB General	6	170.64	173.10	184.15	3.65	41467
Do Accum	6	295.38	299.64	318.77	3.65	41468
TSB Premier Income	5	46.77	47.22	49.19	9.33	41469
Do Accum	5	71.80	72.09	75.51	9.33	41470
TSB Income	6	251.92	256.10xd	272.34	5.23	41471
Do Accum	6	428.53	435.48xd	463.28	5.23	41472
TSB Pacific	6	208.54	211.76	225.28	0.32	41473
Do Accum	6	216.82	220.18	234.23	0.32	41474
TSB International	6	316.64	318.64xd	336.85	0.88	41475
Do Accum	6	400.11	400.11xd	425.65	0.88	41476
TSB Nat Resources	6	57.41	58.72	62.47	1.72	41477
Do Accum	6	60.85	62.25	66.22	1.72	41478
TSB Sictd Opps	6	74.88	74.88	79.66	2.87	41479
Do Accum	6	85.50	85.50	90.96	2.87	41480

Target Trust Mngrs Ltd (1600)H
Target Hse, Gatehouse Rd, Aylesbury, Bucks.
Admin: 0296 394000 Dealing: 01-379 0860

American Eagle	5	59.45	59.45xd	63.60	3.28	41482
Australia	5	6.832	6.832	7.307	0.10	–
Commodity	5	71.76	71.76xd	77.38	0.64	41484
Convertible	5	135.9	135.9xd	146.6	5.22	41485
Equity	5	143.8	143.8	155.1	3.37	41486
Euro Spec Sits	5	81.23	81.23	87.26	1.56	41487
Financial	5	29.06	29.06	31.30	2.18	41488
Global Opps Inc	5	53.05	53.05xd	57.19	0.65	41489
Global Opps Acc	5	53.45	53.45	57.62	0.65	41490
Gold Income	5	43.60	43.60xd	46.86	0.00	41491
Gold Acc	5	80.31	80.31	86.31	0.00	41492
Income	5	97.56	97.56xd	105.3	4.82	41493
Japan	5	127.0	127.0	137.0	0.00	41494
Pacific Inc	5	113.3	113.3	122.4	0.06	41495
Pacific Acc	5	140.5	140.5	151.8	0.06	41496
Preference Share	5	24.12	24.28	26.25	7.48	41497
Special Sits	5	86.10	86.10	93.00	1.68	41498
UK Capital	5	83.34	83.34	90.50	1.73	41499
World Income	5	50.92	50.92	54.68	5.02	41501
Worldwide Capital	5	145.8	145.8	157.2	1.99	41502
Equity Exempt	5	112.5	112.5xd	121.6	2.28	41503
Equity Exempt Acc	5	216.0	216.0	233.2	2.28	41504

Murray Johnstone UT Mngmt
Murray Exempt Funds

	Bid Price	Offer Price	Yield Gross	City-line
Amer Expt Dec 7	36.5	37.9	2.47	41064
Euro Expt Dec 7	41.0	43.0	2.66	41065
Fixed Int Ex Dec 7	47.8	50.1xd	10.2	–
Japan Expt Dec 7	56.1	58.4xd	0.51	41066
Managed Ex Dec 8	36.9	38.3	5.06	41067
SE Asia Expt Dec 7	33.4	35.0	2.25	41068
Sm Cos Expt Dec 7	41.4	43.4xd	2.92	41069
UK Eqty Ex Dec 7	34.6	35.7	4.74	41070

New Court Property Fund Managers

NC Property	191.5	209.3	–	41205

Phillips & Drew Fund Management Ltd

PDFM Small Co's Nov 6	774.0	820.0	4.20	41138
Do Accum	799.0	846.0	4.20	41139
PDFM Int Expt Dec 8	121.1	123.4xd	2.69	41140

J. Rothschild Fund Managers Ltd

Intl Exempt	96.10	97.33	2.49	40172

INSURANCES

AA Friendly Society
(Investment Mngt M & G Inv Mngt Ltd)

AA Friendly Sy Dec 9	–	199.4	–	41607

Abbey Life Assurance Co Ltd
80 Holdenhurst Road, Bournemouth 0202 292373

Prop. Ser. 1	261.5	275.3	–	41608
Equity Ser. 1	108.5	114.3	–	41609
Prop. Acc. Ser 2	390.5	411.1	–	41610
Equity Ser 2	123.2	129.7	–	41611
Selective Acc	291.5	306.9	–	41612
Prop. Ser. 4	313.1	329.6	–	41613
Equity Ser. 4	129.2	136.0	–	41614
Fixed Int. Ser. 4	215.1	226.5	–	41615
Indexed Inv Ser. 4	130.0	137.0	–	41616
American Ser. 4	246.6	259.6	–	41617
High Inc. Ser. 4	372.7	392.4	–	41618
Japan Ser 4	281.2	296.1	–	41619
Man Ser. 4	372.6	392.3	–	41620
Money Ser. 4	221.7	233.4	–	41621
European Ser 4	95.2	100.3	–	41622
Pension Funds				
Property	542.1	570.6	–	41623
Equity	903.3	950.9	–	41624

OTHER UK UNIT TRUSTS

Continued on next page

FT UNIT TRUST INFORMATION SERVICE

• For Current Unit Trust Prices on any telephone ring direct-0836 4 + two digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

National Mutual Life

The Priory, Priory Pk, Hitchin, SG5 2DW 0462 422422

	Bid Price	Offer Price	Yield Gross	City-line
Managed Fund	196.1	206.5	—	43122
Managed Prospect Fund	159.2	167.9	—	43123
UK Equity Fd.	236.7	249.2	—	43124
Fixed Interest	158.0	166.4	—	43125
Pacific	224.2	236.1	—	43126
North American	101.9	107.3	—	43127
Pens. Managed	220.2	231.8	—	43128
Pens. UK Equity	252.9	266.3	—	43129
Pens. Overseas Equity	273.9	286.4	—	43130
Pens. Property	174.7	183.9	—	43131
Pens. Fixed Interest	173.0	182.2	—	43132
Pens. Index Linked	133.0	140.0	—	43133
Pens. Deposit	163.4	172.0	—	43134
P.R.P. UK Equity	110.0	115.9	—	43135
P.R.P. Overseas Equity	97.5	102.7	—	43136
P.R.P. Fixed Interest	117.7	123.9	—	43137
P.R.P. Property	144.6	152.3	—	43138
P.R.P. Index Linked	120.2	126.6	—	43139
P.R.P. Deposit	112.7	116.7	—	43140
P.R.P. Managed	110.4	116.3	—	43141
P.R.P. With Profits	117.9	124.2	—	43142

National Provident Institution

48 Gracechurch St, London EC3P 3HH 01-623 4200

	Bid Price	Offer Price	Yield Gross	City-line
Managed	287.5	302.7	—	43163
UK Equity	354.1	372.8	—	43164
Overseas Eq.	263.4	277.3	—	43165
Americas	198.3	208.8	—	43166
Far East	333.2	350.8	—	43167
Property	192.9	203.1	—	43168
Fixed Int.	216.2	227.6	—	43169
Indexed Gilt	127.8	134.6	—	43170
Deposit	144.4	152.0	—	43171

Pension Fund (Accum Units)

Providence Capital Life Assc. Co Ltd

30 Uxbridge Rd, London W12 8PG 01-749 9111

	Bid Price	Offer Price	Yield Gross	City-line
UK Equity Acc.	180.4	190.4	—	43411
UK Fixed Int. Acc.	141.6	149.4	—	43412
Intl Equities Acc.	127.9	135.0	—	43413
UK Managed Acc.	142.5	150.3	—	43414
Property Acc.	221.6	233.8	—	43415
Money Acc.	102.7	108.4	—	43416
Special Market Acc.	96.9	102.3	—	43417
Japan Equity Acc.	137.7	145.3	—	—
North American Acc.	83.7	88.3	—	43419
Pacific Acc.	72.7	76.7	—	43420
Technology Acc.	105.6	111.4	—	43421
Nat Resources Acc.	57.1	60.3	—	43422
European Acc.	77.8	82.1	—	43424
Residential Prop Acc.	116.8	123.3	—	43425
Swiss Equities Acc.	30.8	32.5	—	43426
Hong Kong Acc.	43.5	45.9	—	43427
UK High Inc Eq Acc.	59.3	62.6	—	43428
Int Fixed Interest Acc.	49.4	52.2	—	46406
Int Managed Acc.	46.4	48.9	—	46407
NIP Managed Acc.	100.8	106.3	—	—
Total Investment Bond		126.0	—	43429
UK Equity Initial		99.0	—	43430
UK Fixed Int Initial		88.8	—	43431
Intl Equities Initial		99.7	—	43432
UK Managed Initial		156.1	—	43433
Property Initial		72.2	—	43434
Money Initial		77.3	—	43435
Special Market Initial		109.8	—	—
Japan Equity Initial		66.8	—	43437
North American Initial		57.9	—	43438
Pacific Initial		84.1	—	43439
Technology Initial		45.5	—	43440
Nat Resources Initial		72.7	—	43442
European Initial		134.7	—	43443

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MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

UK LISTED

IoM AUTHORISED

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FT UNIT TRUST INFORMATION SERVICE

OFFSHORE INSURANCES

OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

Five to Fifteen Years

Over Fifteen Years

BRITISH FUNDS—Contd

Undated

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
359	Consols 4pc	43	–	27.6	1Feb 1Aug	1239
1,909	War Loan 3½pc‡‡	39	–	22.11	1Jun 1Dec	1352
140	Conv. 3½pc '61 Aft.	61½	–	25.8	1Apr 1Oct	1243
56	Treas. 3pc '66 Aft.	32	–	1.9	5Apr 5Oct	1324
276	Consols 2½pc	27	–	1.12	5Ja Ap Jul O	1238
475	Treas. 2½pc	27	–	25.8	1Apr 1Oct	1315

Index-Linked

Amount £m	Stock	Price £	(b) Red. Yld.**	Last xd	Interest Due	City-line
500	Treas 2pc IL '90(84.6)	124	3.41	20.6	25Jul 25Jan	1311
650	Do. 2pc '92‡‡(97.8)	104	3.47	17.8	23Mar 23Sep	1312
400	Do. 2 '94 (102.9)	95¼	3.64	10.10	16Nov 16May	–
1,000	Do. 2pc '96(67.9)	139	3.60	10.8	16Mar 16Sep	1313
900	Do 2½pc '01(78.3)	119	3.72	18.8	24Mar 24Sep	1316
800	Do. 2½pc '03(78.8)	116¼	3.76	14.10	20Nov 20May	1317
1,200	Do. 2pc '06(69.5)	118½	3.77	13.6	19Jan 19Jul	1314
950	Do. 2½pc '09(78.8)	111	3.75	14.10	20Nov 20May	1318
1,350	Do. 2½pc '11(74.6)	115	3.74	18.7	23Feb 23Aug	1319
1,100	Do. 2½pc '13(89.2)	95	3.72	11.7	16Feb 16Aug	1320
1,700	Do. 2½pc '16(81.6)	103	3.70	20.6	26Jan 26Jul	1321
1,400	Do. 2½pc '20(83.0)	101	3.62	9.9	16Oct 16Apr	1322
900	Do. 2½pc '24‡‡(97.7)	85	3.58	10.6	17Jan 17Jul	1323

**Prospective real redemption rate on projected inflation of 5%. (b) Figures in parentheses show RPI base month for indexing, (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in January 1987. Conversion factor 3.945. RPI for March 1988:104.1 and for October 1988:109.5

INT. BANK AND O'SEAS GOVT STERLING ISSUES

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
50	African Dv Bk 11¼ Ln 2010	104xd	10.61	1.12	4 Jan 4 Jun	–
100	Asian Dev Bk 10¼pcLn2009	100½	10.19	26.9	24Mar 24Sep	–
100	Australia 13½pc 2010	125	10.48	24.6	28Jan 28Jul	–
100	Do. 11¼pcLn2015	109	10.35	22.9	26Apr 26Oct	–
75	Euro Inv Bk 11pc Ln 2002	104	10.39	23.8	23Mar 23Sep	–
100	Do. 10¼pc2004	100	10.34	24.10	22Mar 22Nov	–
75	Int-Am Dev Bk 12½pc 2003	114	10.48	6.6	8Jan 8Jul	–
175	Do. 9¾pcLn 2015	95	10.19	13.10	15 May 15 Nov	–
75	Mlysia 10¼pcLn 2009	95¼	11.35	27.6	31 Jan 31 Jul	–
50	Utd. Mexican States 16½pc 2008	120	12.85	27.7	1Mar 1Sep	–

CORPORATION LOANS

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
32	Birmingham 13½pc 1989	100½	11.20	26.10	20 May 20 Nov	1838
45	Do. 11½pc 2012	107½	10.60	14.10	15May 15Nov	1837
40	GLC 6¾pc 1990-92	87½	11.50	15.7	15Feb 15Aug	2647
40	Leeds 13½pc 2006	117½	11.16	9.9	1Apr 1Oct	3146
5	Liverpool 3½pc Irred	39	–	1.12	1Ja Apr Jn Oc	3169
25	LCC 6¾pc '88-90	91½	12.65	10.6	10Jan 10Jul	3198
26	Do. 3pc '20 Aft.	25	–	1.11	1Mar Jn S D	3197
7	Manchester 11½pc 2007	104½	10.98	23.9	25Apr 25Oct	3275

COMMONWEALTH & AFRICAN LOANS

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
14	NZ 7½pc 1988-92	86½	11.20	1.12	1Jan 1Jul	–
–	S Rhod 2½pc Non-Asstd.	206	–	–	1Apr 1Oct	–
4	Do. 4½pc 87-92 Asstd.	84½	9.33	7.7	7Feb 7Aug	–

LOANS

Building Societies

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
20	N'wide Anglia 9½pc 28.12.88	99	12.59	20.5	21Jun 28Dec	–
20	Do. 9½pc 23.1.89	99	12.53	17.6	23Jan 18Jul	–
20	Do. 9½pc 20.2.89	99	12.46	–	20Feb 15Aug	–
20	Do. 9½pc 13.3.89	98	12.46	8.8	13Mar 7Sep	–
20	Do. 9¾pc 17.4.89	98	12.46	12.9	17Apr 11Oct	–
20	Do. 9½pc 8.5.89	98	12.38	–	8May 3Nov	–
20	Do. 8½pc 30.5.89	98	12.43	24.10	30May 23Nov	–
20	Do. 9½pc 26.6.89	98	12.44	21.11	26June 20Dec	–
20	Do. 10½pc 17.7.89	98	12.49	–	–	–
20	Do. 11¾pc 7.8.89	98	12.57	–	–	–
20	Do. 11¾pc 29.8.89	99	13.42	–	–	–
20	Do. 12¼pc 18.9.89	99	13.42	–	–	–
20	Do. 12½pc 2.10.89	99	13.40	–	–	–
20	Do. 11½pc 6.11.89	99	13.35	–	–	–
60	Do. 3⅞pcIL Ln 2021	100¼	4.42	19.7	30Jan 31Jul	3465

Public Board and Ind.

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
3	Agric. Mt. 5pc '59-89	95xd	8.51	1.12	1Jan 1July	1532
25	Met. Wtr. 3pc 'B'	47	9.83	1.8	1Mar 1Sep	3361

Financial

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
331	11¾pc Un Ln '90	99¼xd	12.54	5.12	11Jan 11Jul	–
15	Do 7¼pcADb89-92	86½	11.54	27.5	30Sep 31Dec	–
15	Do. 12½pc Un. Ln. 1992	101	11.80	15.2	14Mar 14Sep	–
10	Do. 7¼pc A 1991-94	83	11.30	29.2	31Mar 30Sep	–
10	Do. 9pc A 1991-94	90	11.25	5.9	31Mar 30Sep	–
9	Do. 8¾pc Ln 1992-97	88	11.00	1.8	31Aug 28Feb	–

FOREIGN BONDS & RAILS

Amount £m	Stock	Price £	Div % Gross	Yld	Last xd	Interest Paid	City-line
7	Greek 7pc Ass.	45	3.50	7.78	1.11	1May 1Nov	2763
4	Do. 6pc 28 Stb. Ass.	45	3	6.67	1.8	1Feb 1Aug	2762
–	Do 4pc Mixed Ass.	45	2	4.44	3.10	1Apr 1Oct	2761
1	Hung. '24 Ass.	80	2.75	3.57	3.5	1May	2935
40	Hydro Quebec 15pc 2011	134xd	15.00	10.82	27.10	31May 30Nov	–
30	Iceland 14½pc Ln 2016	123	14.50	11.61	4.1	31Jan 31Jul	–
30	Ireland 9¾pc '91-96	95	9.75	10.78	1.8	1Mar 15Sep	3002

AMERICANS

Market Cap. £m	Stock	Price £	Div Gross	Y'ld Gr's	Last xd	Dividends Paid	City-line
5,802.6	Abbott Laboratories	25½xd	$1.20	2.6	10.10	Fb My Ag Nv	1503
179.3	Allegheny & W 1c.	345p	30c	4.8	–		–
1,459.7	Amax $1	11	020c	0.9	7.11	Mr Je Se Dc	1581
1,845.8	Amdahl 5c.	996p	h10c	0.6	10.8	Nv Mr Jn Ag	–
2,333.9	Amer. Cyanamid $5	25	$1.20	2.6	22.2	Mr Je Se Dc	–
7,408.2	Amer. Express 60c.	14¾xd	84c	3.1	4.10	Fb My Ag Nv	1594
671.5	Amer. Medical Int. $1	826p	72c	4.8	11.1	Fb My Au Nv	–
17,247.1	American T. & T. $1	16	$1.20	4.1	27.5	Fb My Ag Nv	1597
7,190.8	Ameritech $1	51	$5.40	5.8	27.6	Fb My Ag Nv	–
5,154.6	Anheuser-Busch $1	17	72c	2.3	3.11	Mr Jn Se Dc	1620
1,776.7	BankAmerica $1⅛	981p	–	–	11.85	Fe My Au No	1744
1,631.0	Bankers N.Y. $1	20	$1.86	5.0	26.3	Ap Jly Oc Jan	1745
7,799.9	Bell Atlantic $1	39	$4.08	5.7	27.6	Fe My Au No	–
11,467.6	BellSouth Corp.	21	$2.36	6.0	6.7	Fe My Au No	–
864.2	Bethlehem Steel $8	11	–	–	4.11	Mar Jun S D	1821
–	Bio-Rad Labs. Inc. "A"	989p	–	–	–		–
527.8	Bowater Inc.	14xd	$1.12	4.3	7.12	Oc Ja Ap Jy	1884
2,177.3	Browning-Ferris 16.6c.	14xd	48c	1.8	14.5	Ja Ap Jly O	1986
830.5	Brunswick 75c.	9xd	44c	2.6	20.10	F My Au N	1989
2,263.0	CPC Intnl. 25c.	27	$1.44	2.9	25.9	Jan Ap Jly O	2263
2,670.0	CSX $1	17	$1.24	4.0	22.2	M.J.S.D.	–
102.0	California Engy	840p	–	–	–	–	–
351.0	CalFed Inc $1	11	$1.40	6.5	9.11	Mr Jn Sp Dc	–
2,210.0	Campbell Soup 15c.	17xd	84c	2.7	4.1	Oc Ja Ap Jy	–
3,486.4	Caterpillar Inc $1	34	75c	1.2	19.10	F My Au N	–
1,204.0	Chase Manhattan $12½	14xd	$2.16	8.1	27.7	Fe My Ag Nv	2109
1,594.1	Chem. Banking Corpn.	18	$2.72	8.4	6.6	Ap Jy Oc Ja	–
3,189.8	Chrysler $6¼	14xd	$1.00	3.8	12.9	Mar Jun S D	2135
4,531.4	Citicorp $1	14	$1.48	5.7	25.10	My Au N F	2141
3.60	CityFed Fin. Corp.	175p	4c	1.3	29.10	Fb My Ag Nv	–
1,694.9	Colgate-Palmolive $1	24xd	s$1.48	3.3	19.10	F My Au N	2184
636.3	Cons Freightways 62½c.	16	98c	3.2	3.11	Fe My Au Nv	–
120.2	Contl Illinois Corp $1	284p	8c	1.6	30.11	Oc Mr. Ju Sa	–
16.5	Cont. Illinois Hldgs $1	6¼	–	–	–	Mr Ju Se De	–
–	Corporate Data Scnte.	362p	–	–	–	–	–
107.2	Cullinet Sftwr 1c.	332p	–	–	–	–	–
898.9	Dana Corp. $1	20xd	$1.60	4.4	29.11	Mr Je Se De	2306
265.5	Data General	962p	–	–	–	–	–
4,561.8	Dun & Bradstreet $1	30	$1.74	3.2	15.11	Mr Jn Sp Dc	–
1,120.8	Eaton Corpn. 50c.	29	h$2.00	3.7	2.11	F My Au N	2410
2,263.8	FPL Group 1c.	17xd	$2.20	7.1	23.11	Mr Jn Sep Dec	–
14,580.2	Ford Motor $1	28xd	$2.40	4.7	27.10	Mar Jun S D	2615
542.1	GATX 62½c.	29xd	$1.80	3.4	12.9	Mar Jun S D	2662
22,769.3	Gen. Elect. 63c.	24xd	$1.40	3.1	5.12	Ja Ap Jly O	2675
–	General Host Corp $1	467p	28c	3.3	–	–	–
2,043.3	Gillette $1	17	86c	2.7	29.10	Mar Jun S D	2695
213.1	Gt Am First Svgs Bk $1	650p	60c	5.1	28.10	Fb My Aug Nv	–
593.3	Greyhound $1½	15xd	$1.32	4.8	31.5	Ja Ap Jy Oc	2778
454.2	Hasbro Inc 50c.	860p	12c	1.0	27.10	Ja No Au My	–
238.1	Home Group $1	581p	20c	1.9	28.11	Jan Mar Ju De	2915
1,372.4	Honeywell $1½	31	$2.10	3.7	22.11	Mar Jun S D	2919

Money Market Trust Funds

Money Market Bank Accounts

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AMERICANS—Contd

Market Cap. £m	Stock	Price £	Div Gross	Y'ld Gr's	Last xd	Dividends Paid	City-line
4,765.8	USX $1	15⅝	$1.40	5.0	2.11	Mr Je Se De	4380
118.0	Unilab	127p	–	5.0	–	–	–
2,828.2	Utd. Technologies	21½	$1.60	4.1	15.11	Mr Jn Sp Dc	4381
–	Utilitech Incorp	13⅝p	–	–	–	–	–
6,411.9	US West	32	$3.52	6.1	13.4	Fb My Ag Nv	–
4,933.8	Waste Management $1	21¾	48c	1.2	16.9	Ap Jly Oc Jan	4439
917.3	Whirlpool $1	13¼xd	$1.10	4.6	30.11	Mr Je Se De	–
1,961.8	Whitman Corp	17½xd	96c	3.0	6.12	Ap Jy Oc Ja	2951
1,814.3	♦Woolworth $3½	27¾	$1.64	3.3	19.11	Mr Je Se De	4540

CANADIANS

Market Cap. £m	Stock	Price £	Div Gross	Y'ld Gr's	Last xd	Dividends Paid	City-line
–	ABM Gold Corp ‖	147p	–	–	–	–	–
–	♦Abbot Energy Corp	7p	–	–	–	–	–
529.9	♦Amer. Barrick Res	920p	–	–	–	–	–
–	American Lightwave	3p	–	–	–	–	–
–	♦Armeno	12¼p	–	–	–	–	–
–	Asamitto Expln	39½p	–	–	–	–	–
1,786.5	Bk. Montreal ‖	12⅝	$2.00	7.4	8.8	Fb My Ag Nv	–
1,169.6	Bk. Nova Scot. ‖	669p	76c	5.2	28.9	Ja Ap Ju Oc	–
4,694.5	BCE ‖	17⅜xd	$2.44	6.4	6.6	Ap Jy Oc Ja	–
243.5	♦Bow Valley ‖	588p	♦40c	3.1	15.12	May Nov.	–
780.8	♦Brascan ‖	11½	88c	3.5	28.10	Ja Ap Jy Oc	–
42.8	♦Breakwater Res	191p	10c	2.4	–	–	–
1,788.2	Can. Imp Bank ‖	11⅜	$1.16	4.6	29.6	Fe My Au No	–
2,733.7	Can. Pacific ‖	982p	76c	3.8	28.9	July Jan.	–
18.0	Do. 4pc Deb £100	38½xd	4%	10.4	24.11	July Jan	2051
–	Central Capital "A" ‖	489p	–	–	–	–	–
–	♦Corona Corp	352p	–	–	–	–	–
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

BANKS, HP & LEASING

[illegible]

Hire Purchase, Leasing, etc.

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS—Contd

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

ELECTRICALS

[illegible]

ENGINEERING

[illegible]

ENGINEERING—Contd

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS (Miscel.)—Contd

[illegible]

INDUSTRIALS (Miscel.) — Contd.

[illegible]

INSURANCES

[illegible]

LEISURE

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TEXTILES—Contd

TOBACCOS

TRUSTS, FINANCE, LAND

Investment Trusts

TRUSTS, FINANCE, LAND—Contd

Finance, Land, etc

OIL AND GAS

OIL AND GAS—Contd

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

MINES—Contd

Tins

Miscellaneous

THIRD MARKET

8.72	Royal Sovereign 10p.	197	14.6	3.1	3.10	May Nov	1505
1.44	Scott Pickford 10p.	28½		3.1	20.2	–	5062
6.46	Seacon Hldgs.	93	21.0	1.4	19.9	October	3968
0.93	Sonic Tape 2½p	7½		–	–	–	5152
5.25	Staks Hldgs. 5p	19	–	–	–	–	4625
3.56	Swanyard Studios 1p	2½		–	–	–	4666
25.6	Takare	293	b1.0	0.5	–	–	4647
3.36	Tomorrows Leisure 20p	38	–	–	–	–	4248
11.3	Tullow Oil 10p	18	–	–	–	–	4886
4.51	UPL Group 10p	112xd	L2.41	2.9	28.11	June	4362
7.59	Unit Group	147xd	F7.5	6.8	28.11	Jan July	4357
9.21	Whitegate Leisure 20p.	13	–	–	–	–	1105
0.67	Do. Wrrnts	10	–	–	–	–	1116
0.88	Wilton Group	5¾	–	–	23.11	–	3628

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha, β Beta, γ Gamma.

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

● "Tap Stock"
† Interim since increased or resumed
‡ Interim since reduced, passed or deferred
‡‡ Tax-free to non-residents on application
♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
♣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
‡‡ Dealt in under Rule 535(3).
# Price at time of suspension
¶ Indicated dividend after pending scrip and/or rights issue.
♦ Merger bid or reorganisation in progress
♠ Not comparable
♦ Same interim; reduced final and/or reduced earnings indicated
¶ Forecast dividend.

‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
☆ Cover does not allow for shares which may also rank for dividend at a future date.
‖ No par value

B.Fr. Belgian Francs. Fr. French Francs. §§ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending. s Dividend and yield exclude a special payment. t Indicated dividend. u Forecast, or estimated annualised dividend rate. v Subject to local tax. y Dividend and yield based on merger terms. z Dividend and yield include a special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1988-89. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1989. K Dividend and yield based on prospectus or other official estimates for 1987-88. L Estimated annualised dividend. M Dividend and yield based on prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1987. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend. T Figures assumed. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Albany Inv 20p	68	......
Craig & Rose £1	710xd	......
Finlay Pkg. 5p	86	+1
Holt (Jos) 25p	£11¾	+⅛

IRISH

Cap. 8½% Ln. 1991	£99⅝	......
9pc Cap Ln. 1996	£103¼	......
Fin. 13% 97/02	£124¼	......
Arnotts	375	......
Carrol (P.J.)	145	......
Grafton Grp	143	......
Hall (R. & H.)	153	......
Helton Hldgs.	57	......
Irish Ropes	165	......

TRADITIONAL OPTIONS
3-month call rates

Industrials	p
Allied-Lyons	40
Amstrad	18
BAT	40
BOC Grp.	36
BSR	7½
BTR	26
Barclays	34
Beecham	40
Blue Circle	39
Boots	20
Bowaters	38
Brit Aerospace	42
Brit. Telecom	21
Burton Ord.	18
Cadburys	31
Charter Cons.	45
Comm Union	28
Courtaulds	26
FKI Babcock	13
FNFC	21
Gen Accident	71
GEC	15
Glaxo	90
Grand Met	38
GUS 'A'	90
Guardian	16
GKN	28
Hanson	12
Hawker Sidd.	48
ICI	85
Jaguar	22
Ladbroke	38
Legal & Gen.	26
Lex Service	34
Lloyds Bank	29
Lucas Inds.	48
Marks & Spencer	15
Midland Bk.	35
Morgan Grenfell	28
NEI	12
Nat West Bk.	45
P & O Dfd.	48
Plessey	15
Polly Peck	28
Racal Elect.	25
RHM	32
Rank Org Ord.	63
Reed Intnl	38
STC	24
Sears	13
TI	32
TSB	9
Tesco	12
Thorn EMI	55
Trust Houses	24
T&N	16
Unilever	42
Vickers	15
Wellcome	42

Property	
Brit Land	30
Land Securities	52
MEPC	50
Peachey	54

Oils	
Brit Petroleum	21
Do. (P.Paid)	12
Burmah Oil	48
Calor	35
Charterhall	2½
Premier	5½
Shell	85
Ultramar	21

Mines	
Cons Gold	100
Lonrho	38
RTZ	40

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CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Dollar to slide as Gorbachev factor fades

By Colin Millham

IT WAS always rather hard to believe that the dollar could sustain sharp gains, simply because there might be fewer Soviet troops and tanks in Europe in future.

Wednesday's figures on US trade in October are likely to prove a more reliable guide to the future performance of the currency.

A sudden surge in the value of the dollar caught the foreign exchange market by surprise last week. Soviet leader Mr Mikhail Gorbachev's offer of substantial cuts in his country's armed forces led to strong demand for the dollar, on speculation that the Soviet initiative would be met with a reduction in US arms spending, and a lower US budget deficit.

Dealers rushed to cover positions in a market short of dollars, but the move was largely technical and lacked conviction.

After rising above DM1.7700 and Y124.00 on Wednesday, in response to the speech by Mr Gorbachev at the United Nations, the dollar fall back to DM1.7330 and Y122.25 at Friday's close in London.

According to several analysts nothing has changed. If *there is a cut back in US* defence spending - and after President Reagan's comments on Thursday this is by no means assured - the impact on the US Budget deficit would be only a few billion dollars, against a shortfall of at least $100bn.

This assumes the US will meet the Gramm Rudman target for the 1990 fiscal year, beginning on October 1, 1989. Mr Rupert Thompson, international analyst at Morgan Grenfell, points out that cuts of around $30bn from current spending plans will be needed to hit this target.

Mr Thompson says the scope for large non-defence spending cuts is severely limited, and that substantial gains can only be made in the long run.

He adds that Mr George Bush, US President-elect, might retreat on his commitment not to raise taxes to cut the budget deficit, but not until well into next year, when he can claim to be bowing to pressure from Congress and the financial markets.

Mr Thompson believes that Mr Bush and Congress may eventually agree on a compromise to avoid sequestration of funds, but only after much wrangling.

Mr Geoffrey Dennis, chief international economist at James Capel, fears the budget negotiations will prove lengthy and very difficult. He says sequestration may have to be used for the first time next summer.

The US trade figures are likely to be the centre of attention this week, but according to Mr Dennis the improving trend in the overseas trade deficit has stalled at a monthly average level of $9bn to $12bn.

A survey by MMS International points to an October deficit of $9.1bn, compared with $9bn in September.

James Capel forecasts the US trade deficit will fall by just $14bn to $122bn next year, and that this will be accompanied by robust economic growth of around 3.2 p.c.; rising inflation; and a lack of progress in achieving cuts in the budget deficit.

Although growth is expected to fall back from around 3.8 p.c. *this year it* will be high enough to bring about a rise of 1 percentage point in US interest rates, according to Mr Dennis.

Nevertheless, the wide trade deficit will override the impact of higher interest rates, and the dollar will continue to slide.

James Capel forecasts that the dollar will weaken to Y112 and to DM1.61 by the fourth quarter of 1989.

Chase Manhattan Securities in London, says central banks are unlikely to support the dollar on a large scale. West Germany, Japan and the UK are experiencing above target or rapid money supply growth, and will not wish to continue printing their own currencies to purchase dollars.

Chase Manhattan's forecast for the dollar is very similar to *James Capel's, suggesting* the US currency will fall to Y112 and DM1.60 in about a year's time.

£ IN NEW YORK

Dec.9	Close	Previous Close
£ Spot	1.8460-1.8475	1.8540-1.8550
1 month	0.53-0.51pm	0.54-0.52pm
3 months	1.70-1.67pm	1.72-1.69pm
12 months	5.87-5.77pm	5.92-5.82pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	Dec.9	Previous
8.30 am	78.6	78.6
9.00 am	78.4	78.6
10.00 am	78.2	78.7
11.00 am	78.3	78.7
Noon	78.2	78.7
1.00 pm	78.2	78.8
2.00 pm	78.2	78.8
3.00 pm	78.2	78.8
4.00 pm	78.2	78.7

CURRENCY RATES

Dec.9	Bank rate %	Special* Drawing Rights	European Currency Unit
Sterling	-	0.736386	0.647476
U.S Dollar	6.50	1.36062	1.19556
Canadian $	8.75	1.62376	1.42571
Austrian Sch.	4	N/A	14.6170
Belgian Franc	7¼	49.7681	43.5544
Danish Krone	7½	9.18146	8.01148
Deutsche Mark	3½	2.38163	2.07825
Neth. Guilder	4	2.67974	2.34570
French Franc	9½	8.10998	7.10225
Italian Lira	12½	N/A	1534.21
Japanese Yen	2½	167.901	146.433
Norway Krone	8	8.84131	7.72155
Spanish Peseta	-	N/A	134.943
Swedish Krona	8½	8.24604	7.20806
Swiss Franc	3	2.00215	1.74935
Greek Drach.	20½	198.181	173.070
Irish Punt	-	N/A	0.776290

*All SDR rates are for Dec.8

CURRENCY MOVEMENTS

Dec.9	Bank of England Index	Morgan** Guaranty Changes %
Sterling	78.2	-13.8
U.S Dollar	92.6	-14.4
Canadian Dollar	84.0	-1.9
Austrian Schilling	136.3	+10.0
Belgian Franc	98.9	-5.7
Danish Krone	90.1	-0.2
Deutsche Mark	146.2	+21.4
Swiss Franc	168.8	+20.0
Guilder	134.3	+13.7
French Franc	69.4	-15.3
Lira	45.9	-20.0
Yen	253.0	+87.4

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base Average 1975=100) **Rates are for Dec.8.

OTHER CURRENCIES

Dec.9	£	$
Argentina	23.8705-24.0315	12.9100-12.9900
Australia	2.1330-2.1350	1.1525-1.1535
Brazil	1151.20-1157.60	622.75-625.90
Finland	7.5585-7.5810	4.0910-4.0930
Greece	264.85-269.35	143.25-145.85
Hong Kong	14.4305-14.4440	7.8050-7.8070
Iran	125.20*	67.15*
Korea(Sth)	1264.25-1274.40	682.20-687.80
Kuwait	0.51770-0.51880	0.28025-0.28045
Luxembourg	67.15-67.25	36.30-36.40
Malaysia	4.9580-4.9700	2.6815-2.6845
Mexico	4214.60-4225.40	2280.00-2284.00
N. Zealand	2.8705-2.8755	1.5515-1.5530
Saudi Ar.	6.9280-6.9380	3.7505-3.7515
Singapore	3.5880-3.5935	1.9390-1.9410
S. Af (Cm)	4.3070-4.3200	2.3360-2.3390
S. Af (Fn)	6.8515-6.9810	3.7035-3.7735
Taiwan	52.05-52.30	28.10-28.20
U.A.E.	6.7825-6.7945	3.6725-3.6735

*Selling rate

EURO-CURRENCY INTEREST RATES

Dec.9	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
Sterling	12⅝-12⅜	12⅞-12⅝	12⅞-12⅝	12⅞-12¾	13⅛-13¼	13⅛-13⅛
US Dollar	8¾-8⅝	8¾-8⅝	9⅛-9⅞	9⅞-9⅝	9⅞-9⅞	9⅝-9⅜
Can. Dollar	10⅛-9⅞	10¼-10	10⅞-10⅝	10⅞-10⅞	11⅛-10⅞	11⅛-10⅞
D. Guilder	5⅜-5⅛	5⅜-5⅛	5⅜-5⅜	5⅜-5¼	5⅝-5½	5⅝-5½
Sw. Franc	5¼-5	5¼-4⅞	5⅜-5⅜	5¼-5⅛	5-4⅞	4⅞-4⅝
Deutschmark	5-4⅞	5-4⅞	5⅜-5⅜	5⅜-5⅞	5⅜-5⅜	5⅜-5⅜
Fr. Franc	7⅞-7⅝	7⅞-7⅝	8⅛-8	8⅛-8⅛	8⅞-8⅞	8⅛-8⅛
Italian Lire	12-10	13⅛-12⅛	12⅛-12⅛	12½-12	12⅛-12	12⅛-11⅞
B. Fr. (Fin)	7¼-7⅛	7⅛-7⅛	7¼-7⅛	7⅛-7⅛	7⅝-7⅛	7⅞-7⅛
B. Fr. (Con)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Yen	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
D. Krone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asian $Sing	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Long term Eurodollars: two years 9⅞-9⅛ per cent; three years 9¾-9⅝ per cent; four years 9¾-9⅝ per cent; five years 9¾-9⅝ per cent nominal. Short term rates are call for US Dollars and Japanese Yen; others, two days' notice.

EXCHANGE CROSS RATES

Dec.9	£	$	DM	Yen	F Fr.	S Fr.	H Fl.	Lira	C $	B Fr.
£	1	1.849	3.205	226.0	10.950	2.703	3.618	2365	2.211	67.20
$	0.541	1	1.733	122.2	5.925	1.462	1.957	1279	1.196	36.34
DM	0.312	0.577	1	70.51	3.418	0.843	1.129	737.9	0.690	20.97
YEN	4.425	8.181	14.18	1000.	48.47	11.96	16.01	10465	9.783	297.3
F Fr.	0.913	1.688	2.926	206.3	10.	2.467	3.303	2159	2.018	61.34
S Fr.	0.370	0.684	1.186	83.61	4.053	1	1.339	875.0	0.818	24.86
H Fl.	0.276	0.511	0.886	62.47	3.028	0.747	1	653.7	0.611	18.57
Lira	0.423	0.782	1.355	95.56	4.632	1.143	1.530	1000.	0.935	28.41
C $	0.452	0.836	1.450	102.2	4.953	1.223	1.636	1070	1	30.39
B Fr.	1.488	2.751	4.769	336.3	16.30	4.022	5.384	3519	3.290	100.

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

POUND SPOT- FORWARD AGAINST THE POUND

Dec.9	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.8390-1.8545	1.8485-1.8495	0.53-0.50cpm	3.34	1.70-1.66pm	3.63
Canada	2.2015-2.2190	2.2105-2.2115	[illegible]	[illegible]	[illegible]	[illegible]
Netherlands	3.61¼-3.62¾	3.61¼-3.62¼	[illegible]	[illegible]	[illegible]	[illegible]
Belgium	66.95-67.65	67.15-67.25	[illegible]	[illegible]	[illegible]	[illegible]
Denmark	12.33-12.37¾	12.35¼-12.36¼	[illegible]	[illegible]	[illegible]	[illegible]
Ireland	1.1955-1.2000	1.1955-1.1965	[illegible]	[illegible]	[illegible]	[illegible]
W. Germany	3.20-3.21¼	3.20¼-3.20¾	[illegible]	[illegible]	[illegible]	[illegible]
Portugal	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spain	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Norway	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sweden	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Austria	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Switzerland	2.69¼-2.70¾	2.69¼-2.70¼	[illegible]	[illegible]	[illegible]	7.71

Belgian rate is for convertible francs. Financial franc 67.45-67.55. Six-month forward dollar 3.36-3.31cpm 12 month 5.88-5.78pm

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

Dec.9	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.8390-1.8545	1.8485-1.8495	0.53-0.50cpm	3.34	1.70-1.66pm	3.63
Ireland†	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Canada	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Netherlands	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Belgium	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Denmark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
W. Germany	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portugal	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spain	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Norway	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sweden	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Austria	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Switzerland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

† UK and Ireland are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc 36.45-36.55.

MONEY MARKETS

West Germany fuels the interest rate fire

HIGHER INTEREST rates in Frankfurt fuelled speculation that world interest rates will be dragged up next year.

Mr Helmut Haussmann, West Germany's new Economics Minister, said there is too much money around, and the fight against inflation should be a top priority.

Call money in Frankfurt has been running very close to the Lombard emergency borrowing rate of 5 p.c. recently, leading to suggestions the Bundesbank will increase the Lombard rate in the new year.

Mr Karl Otto Poehl, President of the Bundesbank, said the central bank's monetary target for 1989 will aim to maintain confidence in the D-Mark. This will be announced after Thursday's council meeting, when the M3 target is expected to be unchanged at 3 to 6 p.c. Monetary growth this year is almost certain to exceed 6 p.c.

Higher West German rates tended to weigh on sterling on Friday, when the pound lost 1.75 pfennigs to DM3.2050. Dealers became wary that any disappointing UK economic news could result in speculative money moving out of sterling and into the D-Mark.

London interest rates edged nervously higher. The situation remains the same. UK base rates will not fall in the

UK clearing bank base lending rate 13 per cent from November 25

near future, but may be driven up by any a weakening of sterling, particularly against the D-Mark.

The picture is similar in Paris. While the franc holds steady against the D-Mark the Bank of France can hold fire on interest rates. The French central bank left its money market intervention rate at 7¾ p.c. on Friday, but may be forced to tighten its policy if the franc should weaken.

MONEY RATES

NEW YORK (4pm) — Treasury Bills and Bonds

Prime rate	10½	One month	8.14
Broker loan rate	10¼-10½	Two month	7.71
Fed. funds	8¼	Three month	8.16
Fed. funds at intervention	8¼	Six month	8.33
		One year	8.68
		Two year	8.90
		Three year	9.06
		Four year	9.08
		Five year	9.08
		Seven year	9.13
		10 year	9.08
		30 year	9.08

Dec.9	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	4.90-4.95	5.10-5.25	5.15-5.25	5.10-5.25	5.10-5.30	5.00
Paris	7⅞-7⅝	7⅞-8⅛	8-8⅛	8⅛-8⅜	8¼-8⅝	7.75
Zurich	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-
Amsterdam	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-
Tokyo	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-
Milan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-
Brussels	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-
Dublin	7¼-7¾	7⅛-7⅜	7½-8	7⅞-8¼	8¼-8½	-

LONDON MONEY RATES

Dec.9	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
Interbank Offer	13½	13¼	13	13	13⅛	13⅛
Interbank Bid	13	12⅞	12⅞	12⅞	13	13
Sterling CDs	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Local Authority Deps.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Local Authority Bonds	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Discount Mkt Deps	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Company Deposits	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Finance House Deposits	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Treasury Bills (Buy)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Bank Bills (Buy)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Fine Trade Bills (Buy)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dollar CDs	-	-	9.40-9.35	9.25-9.20	9.35-9.30	9.40-9.35
SDR Linked Dep Offer	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
SDR Linked Dep Bid	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
ECU Linked Dep Offer	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
ECU Linked Dep Bid	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Treasury Bills (sell); one-month 12⅛ per cent; three months 12⅛ per cent; Bank Bills (sell); one-month 12⅛ per cent; three months 12⅛ per cent; Treasury Bills: Average tender rate of discount 12.6075 p.c. ECGD Fixed Rate Sterling Export Finance. Make up day November 30, 1988. Agreed rates for period December 26, 1988 to January 24, 1989, Scheme I: 13.27 p.c. Schemes II & III: 13.53 p.c. Reference rate for period November 1, 1988 to November 30, 1988, Scheme IV&V: 12.251 p.c. Local Authority and Finance Houses seven days' notice, others seven days' fixed. Finance House Base Rate 13½ from December 1, 1988: Bank Deposit Rates for sums at seven days notice 4 per cent. Certificates of Tax Deposit (Series 6); Deposit £100,000 and over held under one month 7¼ per cent; one-three months 9 per cent; three-six months 9 per cent; six-nine months 9¼ per cent; nine-twelve months 9¼ per cent; Under £100,000 7 per cent from July 5, 1988. Deposits withdrawn for cash 5 per cent.

FT LONDON INTERBANK FIXING

(11.00 a.m. Dec.9) 3 months US dollars		6 months US Dollars	
bid 9⅞	offer 9¼	bid 9⅞	offer 9⅜

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

BANK OF ENGLAND TREASURY BILL TENDER

	Dec.9	Dec.2		Dec.9	Dec.2
Bills on offer	£100m	£100m	Top accepted rate of discount	12.6149%	12.6146%
Total of applications	£225m	£290m	Average rate of discount	12.6075%	12.5993%
Total allocated	£100m	£100m	Average yield	13.0166%	13.0075%
Minimum accepted bid	£96.855	£96.855	Amount on offer at next tender	£100m	£100m
Allotment at minimum level	100%	33%			

WEEKLY CHANGE IN WORLD INTEREST RATES

	Dec.9	change		Dec.9	change
LONDON			NEW YORK		
Base rates	13	Unch'd	Prime rates	10½	Unch'd
7 day interbank	13¼	+¼	Federal Funds	8.25	+0.13
3 month interbank	13	Unch'd	3 Mth. Treasury Bills	8.16	-0.02
Treasury Bill Tender	12.6075	+0.0082	6 Mth. Treasury Bills	8.33	+0.04
Band 1 Bills	12⅛	Unch'd	3 Mth. CD	9.325	+0.075
Band 2 Bills	12⅛	Unch'd	FRANKFURT		
Band 3 Bills	12⅛	Unch'd	Lombard	5.00	Unch'd
Band 4 Bills	[illegible]	[illegible]	One mth. Interbank	5.175	+0.175
3 Mth. Treasury Bills	[illegible]	[illegible]	Three month	5.175	+0.175
1 Mth. Bank Bills	[illegible]	[illegible]	PARIS		
3 Mth. Bank Bills	[illegible]	[illegible]	Intervention Rate	7.75	Unch'd
TOKYO			One mth. Interbank	8⅛	Unch'd
One month Bills	4.59375	+0.1875	Three month	8⅛	Unch'd
Three month Bills	4.40625	+0.0625	MILAN		
BRUSSELS			One month	12⅛	Unch'd
One month	[illegible]	[illegible]	Three month	12⅛	Unch'd
Three month	[illegible]	[illegible]	DUBLIN		
AMSTERDAM			One month	7⅞	Unch'd
One month	5.38	+0.06	Three month	8	Unch'd
Three month	5.42	+0.04			

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS (Figures in parentheses show number of stocks per grouping)	FRIDAY DECEMBER 9 1988: US Dollar Index	% Change Since Dec.31 87	Pound Sterling Index	Local Currency Index	Gross Div. Yield	THURSDAY DECEMBER 8 1988: US Dollar Index	Pound Sterling Index	Local Currency Index	DOLLAR INDEX: 1988 High	1988 Low	Year Ago (approx)
Australia (90)	145.46	+38.9	116.63	111.55	4.84	146.78	117.56	111.88	152.31	91.16	93.52
Austria (18)	98.10	-2.6	78.66	88.23	2.79	97.28	77.92	88.17	100.09	83.72	92.71
Belgium (63)	134.88	+30.8	108.15	121.41	4.20	133.36	106.81	120.53	139.89	99.14	96.56
Canada (125)	121.42	+9.9	97.36	105.24	3.40	121.98	97.70	105.42	128.91	107.06	107.09
Denmark (39)	157.92	+36.8	126.62	143.37	2.11	157.48	126.13	143.93	159.19	111.42	112.74
Finland (26)	137.75	+19.7	110.45	118.29	1.42	137.69	110.28	118.53	139.83	106.78	-
France (130)	112.34	+30.5	90.08	104.41	3.71	110.91	88.84	103.48	112.34	72.77	81.52
West Germany (102)	88.26	+14.2	70.77	79.52	2.35	87.59	70.16	79.31	88.26	67.78	74.99
Hong Kong (46)	110.33	+23.9	88.47	110.57	4.67	110.79	88.74	110.95	111.86	84.90	77.34
Ireland (18)	131.59	+25.7	105.51	119.89	4.20	131.60	105.41	120.92	144.25	104.60	95.52
Italy (98)	85.04	+9.4	68.19	81.23	2.49	84.69	67.83	81.27	86.73	62.99	76.19
Japan (456)	190.81	+35.0	152.99	147.45	0.51	190.10	152.26	146.87	190.93	133.61	144.26
Malaysia (36)	142.35	+27.5	114.14	147.10	2.88	142.48	114.12	147.28	154.17	107.83	98.10
Mexico (13)	174.59	+65.5	139.99	435.61	1.17	174.20	139.53	434.63	182.24	90.07	124.61
Netherland (38)	110.44	+10.1	88.55	98.64	5.00	110.34	88.38	98.91	111.00	95.23	93.00
New Zealand (25)	65.84	+13.6	52.79	54.27	7.28	66.72	53.44	54.80	84.05	64.42	76.10
Norway (25)	131.35	+29.1	105.32	114.86	2.53	129.21	103.49	113.56	132.23	98.55	97.86
Singapore (26)	121.73	+25.1	97.60	108.83	2.49	121.40	95.84	107.95	135.89	97.99	84.31
South Africa (60)	122.90	-8.0	98.55	100.43	4.63	122.39	98.03	100.96	139.07	98.26	140.88
Spain (42)	150.08	+13.2	120.34	127.97	3.19	149.35	119.62	127.85	164.47	130.73	121.00
Sweden (35)	144.32	+45.6	115.72	128.57	2.22	142.60	114.22	127.51	144.32	96.92	95.86
Switzerland (57)	78.99	-5.4	63.33	71.54	2.37	78.71	63.04	71.51	86.75	74.13	78.49
United Kingdom (316)	134.72	+1.7	108.02	108.02	4.96	135.70	108.69	108.69	141.51	120.66	124.10
USA (577)	112.79	+12.2	90.44	112.79	3.63	112.60	90.19	112.60	115.55	99.19	95.69
Europe (1007)	114.14	+9.2	91.52	97.91	3.83	114.04	91.34	98.01	116.61	97.01	98.72
Pacific Basin (679)	185.66	+34.6	148.87	144.35	0.73	185.07	148.23	144.13	185.81	130.81	139.79
Euro-Pacific (1686)	157.03	+26.0	125.91	125.95	1.65	156.63	125.46	125.86	158.08	120.36	123.39
North America (702)	113.24	+12.1	90.80	112.34	3.62	113.09	90.58	112.17	116.07	99.78	96.30
Europe Ex. UK (691)	101.04	+15.9	81.01	91.87	2.96	100.33	80.36	91.61	101.29	80.27	82.98
Pacific Ex. Japan (223)	124.16	+29.0	99.56	105.21	4.74	124.92	100.06	105.45	128.27	87.51	85.67
World Ex. US (1884)	155.07	+25.9	124.66	125.14	1.72	155.15	124.27	125.06	156.39	120.26	123.00
World Ex. UK (2145)	139.51	+23.1	111.86	122.28	2.04	139.09	111.41	122.08	139.61	111.77	111.30
World Ex. So. Af. (2401)	139.17	+21.1	111.59	121.05	2.28	138.87	111.23	120.93	139.25	113.26	112.25
World Ex. Japan (2005)	114.16	+11.5	91.54	106.97	3.75	114.06	91.36	106.94	115.54	100.00	97.19
The World Index (2461)	139.07	+20.9	111.51	120.91	2.29	138.77	111.15	120.80	139.43	113.37	112.43

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local).

CONSTITUENT CHANGES: Insert: (6/12/88) Oesterreichische El Wirtch (Austria). Deletions: Peko Oil (Australia), Assoc. Newspapers and Telephone Rentals (both U.K.).

EUROPEAN OPTIONS EXCHANGE

Series	Feb. 89 Vol	Feb. 89 Last	May 89 Vol	May 89 Last	Aug. 89 Vol	Aug. 89 Last	Stock
GOLD C $440	297	5.50 A	-	-	-	-	$ 420.90
GOLD C $460	45	2 A	-	-	40	14.50	$ 420.90
GOLD C $500	-	-	40	2	-	-	$ 420.90
GOLD P $400	100	2.50	114	5.50	20	8	$ 420.90
GOLD P $420	100	9.50	-	-	-	-	$ 420.90
GOLD P $440	5	20	-	-	20	20	$ 420.90
EOE Index C / P (Dec.88–Feb.89 series)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Fl. 243.55
OBL Index P Fl.100 / Fl.102.50	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Fl. 99.80
$/Fl C / P	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Fl. 195.78
ABN C … VAN OMMEREN C (share options)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

TOTAL VOLUME IN CONTRACTS : 29,408

A=Ask B=Bid C=Call P=Put

BASE LENDING RATES

	%		%		%
ABN Bank	13	City Merchants Bank	13	NatWestminster	13
Adam & Company	13	Clydesdale Bank	13	Northern Bank Ltd	13
AAB - Allied Arab Bk	13	Comm. Bk. N. East	13	Norwich Gen. Trust	13
Allied Irish Bank	13	Co-operative Bank	*13	PRIVATbanken Limited	13
● Henry Ansbacher	13	Cyprus Popular Bk	13	Provincial Bank PLC	13
ANZ Banking Group	13	Duncan Lawrie	13	R. Raphael & Sons	13
Associates Cap Corp	13	Equatorial Bank plc	13	Roxburghe Guarantee	13½
Authority Bank	13	Exeter Trust Ltd	13	Royal Bk of Scotland	13
● B & C Merchant Bank	13	Financial & Gen. Bank	13	Royal Trust Bank	13
Bank of Baroda	13	First National Bank Plc	14	● Smith & Williamson Secs.	13
Banco Bilbao Vizcaya	13	● Robert Fleming & Co.	13	Standard Chartered	13
Bank Hapoalim	13	Robert Fraser & Ptnrs.	13½	TSB	13
Bank Leumi (UK)	13	Girobank	13	United Bk of Kuwait	13
Bank Credit & Comm.	13	● Guinness Mahon	13	United Mizrahi Bank	13
Bank of Cyprus	13	HFC Bank plc	13	Unity Trust Bank Plc	13
Bank of Ireland	13	● Hambros Bank	13	Western Trust	13
Bank of India	13	Heritable & Gen Inv Bnk	13	Westpac Bank Corp.	13
Bank of Scotland	13	● Hill Samuel	§13	Whiteaway Laidlaw	13½
Banque Belge Ltd	13	C. Hoare & Co.	13	Yorkshire Bank	13
Barclays Bank	13	Hongkong & Shangh.	13		
Benchmark Bank PLC	13	● Leopold Joseph & Sons	13		
Berliner Bank AG	13	Lloyds Bank	13		
Brit. Bk of Mid East	13	Meghraj Bank Ltd	13		
● Brown Shipley	13	Midland Bank	13		
Business Mtge Tst.	13½	McDonnell Douglas Bk	13		
CL Bank Nederland	13	● Morgan Grenfell	13		
Central Capital	13	Mortgage Express Ltd.	§13.95		
● Charterhouse Bank	13	Mount Banking Corp.	13		
Citibank NA	13	Nat Bk. of Kuwait	13		

● Members of British Merchant Banking & Securities Houses Association. * Deposit rate 5.22% Sonnaine 8.47%. Top Tier-£10,000+ at 3 months notice 11.72%. § Mortgage base rate. § Demand deposit 8%. Mortgage 12.75% - 12.75%

LONDON RECENT ISSUES

EQUITIES

Issue Price p	Amount Paid up	Latest Renunc. Date	1988 High	1988 Low	Stock	Closing Price p	+ or -	Net Div.	Times Cov'd	Gross Yield	P/E Ratio
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FIXED INTEREST STOCKS

Issue Price £	Amount Paid up	Latest Renunc. Date	1988 High	1988 Low	Stock	Closing Price £	+ or -
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

RIGHTS OFFERS

Issue Price p	Amount Paid up	Latest Renunc. Date	1988 High	1988 Low	Stock	Closing Price p	+ or -
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible] (notes to Recent Issues tables)

WORLD STOCK MARKETS

CANADA

TORONTO
4pm prices December 7

MONTREAL
4pm prices December 7

344924 Royal Bnk	$37⅞	36¾	37¼	+ ⅛	
43049 RyTrco A	$16	15¾	16	+ ⅛	
4500 SHL Syst	$10⅞	10⅝	10⅞	+ ⅛	
800 SNC A f	450	445	450	+ 5	
2860 StL CemA f	$13¼	13	13¼	+ ¼	
17200 Samuel MT	$17¼	17⅛	17¼	+ ¼	
3032 Sastoil	$8⅛	8⅛	8⅛		
68530 Sceptre	330	320	330	+ 5	
5028 Scot Paper	$18	17½	17⅝	+ ⅝	
3324 Scotts f	$14	13⅞	14		

2979 DomTxtA	$14⅝	14⅝	14⅝	− ⅛
600 MntTrst	$18¾	18¾	18¾	
30092 NatBk Cda	$11⅝	11⅜	11⅜	− ⅛
9155 Noverco	$11¼	10⅞	10⅞	− ⅛
23800 Power Corp	$12⅞	12¾	12⅞	+ ⅛
7788 Provigo	$10⅞	10¾	10⅞	
148598 Royal Bank	$37⅞	36⅞	37¼	+ ¼
300 SteinbrgA	$34½	34½	34½	+ ¼
4000 Videotron	$13¼	13⅛	13⅛	+ ⅛

Total Sales 5,867,232 shares.

INDICES

NEW YORK — DOW JONES

	Dec 9	Dec 8	Dec 7	Dec 6	1988 High	1988 Low	Since compilation High	Since compilation Low
♦Industrials	2143.49	2141.71	2153.63	2149.36	2183.50 (21/10)	1879.14 (20/1)	2722.42 (25/8/87)	41.22 (2/7/32)
Home Bonds	89.31	89.34	89.41	89.30	91.25 (3/3)	86.12 (4/1)	–	–
Transport	951.30	943.00	947.98	946.47	951.30 (9/12)	737.57 (21/1)	1101.16 (14/8/87)	12.32 (8/7/32)
Utilities	185.04	184.98	185.87	185.10	190.02 (29/1)	167.26 (20/4)	227.83 (22/1/87)	10.50 (8/4/32)

♦Day's High 2157.01 (2162.70) Low 2131.40 (2133.18)

STANDARD AND POOR'S	Dec 9	Dec 8	Dec 7	Dec 6	1988 High	1988 Low	Since compilation High	Since compilation Low
Composite ‡	277.03	276.56	278.13	277.59	282.88 (20/10)	242.63 (20/1)	336.77 (25/8/87)	4.40 (1/6/32)
Industrial	319.06	318.46	320.54	319.85	327.53 (24/10)	277.86 (20/1)	393.17 (25/8/87)	3.62 (21/6/32)
Financial	25.22	25.23	25.34	25.30	26.42 (20/10)	21.51 (8/1)	32.43 (25/8/87)	8.64 (1/10/74)
NYSE Composite	155.59	155.37	156.14	155.78	159.01 (20/10)	136.72 (20/1)	187.99 (25/8/87)	4.46 (25/4/42)
Amex Mkt. Value	297.61	297.38	297.77	297.36	309.33 (10/6)	262.76 (12/1)	365.01 (13/8/87)	29.31 (9/12/72)
NASDAQ OTC Comp	375.20	375.22	376.36	377.00	394.77 (18/7)	331.97 (12/1)	455.28 (26/8/87)	54.87 (31/10/72)

	Dec 2	Nov 25	Nov 18	year ago (approx.)
Dow Industrial Div. Yield	3.79	3.82	3.83	3.88

	Dec 7	Nov 30	Nov 16	year ago (approx.)
S & P Industrial div. yield	3.15	3.21	3.32	3.31
S & P Indl. P/E ratio	12.80	12.64	12.13	16.39

TRADING ACTIVITY — † Volume Millions

	Dec 9	Dec 8	Dec 7
New York	133.770	124.150	148.360
Amex	8.798	9.012	10.239
OTC	113.557	109.866	122.481

NEW YORK	Dec 9	Dec 8	Dec 7
Issues Traded	1,970	1,991	1,985
Rises	776	510	817
Falls	645	936	632
Unchanged	549	545	536
New Highs	30	22	38
New Lows	24	16	18

CANADA

TORONTO	Dec 9	Dec 8	Dec 7	Dec 6	1988 High	1988 Low
Metals & Minerals	3013.8	3007.1	2992.5	2978.1	3226.5 (5/7)	2238.7 (8/2)
Composite	3301.0	3307.3	3324.1	3314.3	3465.4 (5/7)	2977.9 (8/2)
MONTREAL Portfolio	1649.92	1650.23	1660.77	1652.71	1723.71 (5/7)	1305.06 (27/1)

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day
Continental Illinois	9,844,800	5¼	----
RJR Nabisco	3,289,900	89⅝	− ¼
Pac G&E (xd)	3,154,600	18	− ¼
USF&G	2,622,800	30⅞	+ ¼
Allegheny Power	2,595,400	37¼	+ ¼
Hong Kong	2,240,000	18⅛	----
Texaco	2,046,400	50⅛	− ⅞
SmithKline Beckman	1,787,500	50¼	− 2¼
General Electric	1,512,400	45⅞	− ⅞
Gulf States Util	1,327,500	7⅞	− ⅛

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

	Dec. 9	Dec. 8	Dec. 7	Dec. 6	1988 High	1988 Low
AUSTRALIA						
All Ordinaries (1/1/80)	1471.0	1475.7	1471.4	1459.3	1657.8 (9/8)	1170.7 (10/2)
All Mining (1/1/80)	675.2	676.1	673.4	667.2	847.8 (9/8)	532.4 (10/2)
AUSTRIA						
Credit Aktien (30/12/84)	218.9	(c)	219.40	219.70	225.48 (4/11)	163.98 (11/2)
BELGIUM						
Brussels SE (1/1/84)	5404.90	5373.50	5357.50	5347.80	5404.90 (9/12)	3608.35(4/1)
DENMARK						
Copenhagen SE (3/1/83)	259.17	259.76	260.35	261.07	261.07 (6/12)	180.68 (4/1)
FINLAND						
Unitas General (1975)	743.2	743.7	743.5	(c)	772.1 (8/8)	530.6 (15/1)
FRANCE						
CAC General (31/12/82)	394.2	393.9	(u)	389.7	397.2 (9/11)	251.3 (29/1)
Ind. Tendance(31/12/87)	152.4	152.1	151.9	150.8	153.4 (4/11)	89.7 (29/1)
GERMANY						
FAZ Aktien (31/12/58)	538.27	537.24	538.10	534.47	542.21 (27/10)	396.40 (29/1)
Commerzbank (1/12/53)	1616.4	1611.9	1613.8	1603.2	1641.6 (27/10)	1207.9 (29/1)
DAX (30/12/87)	1301.43	1296.53	1299.57	1287.94	1314.98 (28/10)	931.18 (28/1)
HONG KONG						
Hang Seng Bank (31/7/64)	2671.36	2680.20	2690.28	2676.59	2772.53 (12/7)	2223.56 (8/2)
ITALY						
Banca Com. Ital. (1972)	575.63	(c)	575.79	575.83	593.43 (9/11)	423.91 (9/2)
JAPAN**						
Nikkei (16/5/49)	29793.42	29758.90	30050.82	29669.38	30050.82 (7/12)	21217.04 (4/1)
Tokyo SE (Topix) (4/1/68)	2305.48	2302.60	2314.20	2295.24	2314.20 (7/12)	1690.44 (4/1)
NETHERLANDS						
ANP-CBS General (1970)	277.3	277.5	278.9	275.6	285.8 (26/10)	205.7 (4/1)
ANP-CBS Industrial (1970)	244.2	244.4	246.7	243.3	252.6 (31/10)	157.9 (11/1)
NORWAY						
Oslo SE (4/1/83)	432.47	426.57	425.50	427.18	432.47 (9/12)	327.78 (28/1)
SINGAPORE						
Straits Times Ind. (30/12/66)	1002.26	1002.84	998.99	996.14	1177.87 (8/8)	833.60(4/1)
SOUTH AFRICA						
JSE Gold (28/9/78)	1366.0♦	1382.0	1392.0	1388.0	1451.0 (7/7)	1154.0 (4/5)
JSE Industrial (28/9/78)	1904.0♦	1904.0	1896.0	1881.0	1904.0 (8/12)	1387.0 (12/2)
SPAIN						
Madrid SE (30/12/85)	277.00	(c)	276.64	(c)	301.63 (15/6)	225.50 (4/1)
SWEDEN						
Jacobson & P. (31/12/56)	3350.9	3328.5	3324.3	3331.2	3350.9 (9/12)	2148.5 (4/1)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	589.0	586.5	585.7	583.3	589.0 (9/12)	466.6 (13/1)
WORLD						
M.S. Capital Intl. (1/1/70)	(u)	491.7	493.0	493.8	493.8 (6/12)	401.0 (21/1)

**Saturday Dec. 10: Japan Nikkei (c) and TSE (c)
♦ Subject to official recalculation.

Base values of all indices are 100 except Brussels SE and DAX – 1,000 JSE Gold – 255.7 JSE Industrials – 264.3 and Australia. All Ordinary and Mining – 500; (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks
Friday 9 December 1988

	Stocks Traded	Closing Prices	Change on day
Japan Line	50.8m	686	+24
Marubeni	37.2m	851	+8
Kawasaki Heavy	36.0m	873	+16
Mitsui Mining & Smelting	33.0m	781	+19
Mitsubishi Elec	32.2m	1,060	+10
Nippon Steel	27.9m	922	+12
Toyo Menka	26.9m	570	+7
Tokyo Gas	26.3m	673	+17
Mitsubishi Heavy Ind	25.7m	1,040	+20
Yamashita Shin-nihon Steamship	20.5m	987	+11

4pm prices December 8

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
g317-1 300PM NY STOCKS sheet 1q										
		– A–A–A –								
27⅞	14⅛	AAR	.44	1.9	17	149	23⅜	22⅞	23¼	+ ½
10⅛	8¾	ACM n	1.01	11.		x72	9	8⅞	8⅞	+ ⅛
12⅛	10¾	ACMIn	1.28e	12.		x330	10⅞	d10⅝	10⅞	+ ¼
10⅛	10	ACM M	n.08e	.8		x557	10	d 9⅞	9⅞	
12⅛	10⅜	ACMSc	n1.26	12.		827	10⅝	10½	10⅝	
10⅛	8⅝	ACMSp	n1.01a	11.		528	8⅞	8¾	8⅞	
5⅜	2⅞	AMCA	.12e	3.6		128	3⅜	3⅛	3⅜	+ ⅛
6⅛	3⅜	AM Intl				592	4⅛	4⅝	4⅝	– ⅛
23¼	18⅛	AM Int pf	2	9.4		49	21¼	21	21¼	
55	28⅜	AMR			9	3846	54	52¾	53⅞	+ ⅞
9½	5⅜	ARX			10	70	5⅞	5⅝	5⅞	+ ⅛
54½	35¼	ASA	3e	7.7		210	39	38¼	38¼	– ⅛
20¼	11⅜	AVX	.12e	.7	11	88	16⅝	16¼	16⅝	+ ⅜
52⅜	42⅝	AbtLab	1.20	2.5	15	5430	47⅞	47⅛	47⅝	+ ⅜
21⅝	15⅝	Abitibi g	1			57	16⅛	16	16	– ⅛
13⅞	7½	AcmeC	.40	5.2		75	7⅞	7⅝	7⅞	
6⅞	5⅞	AcmeE	.32b	5.4	28	7	5⅞	5⅞	5⅞	
29½	13½	Acusn			28	89	25⅛	24¾	24⅞	– ¼
17	14½	AdaEx	1.62e	12.		156	14⅞	14¾	14⅞	
16⅞	7⅜	AMD			13	6643	7½	7⅜	7⅛	– ⅜
43½	28¾	AMD pf	3	10.		88	29¾	29⅜	29½	– ½
8½	4¾	Adobe				57	6¾	6¾	6¾	
19½	16¼	Adob pf	1.84	11.		9	17¼	17⅛	17¼	
21¾	19¼	Adob pf	2.40	12.		2	20⅝	20⅝	20⅝	+ ⅛
9¾	5⅞	Advest	.12	1.7	21	109	7	6⅞	6⅞	
52½	39½	AetnLf	2.76	5.8	8	1621	48	47½	47⅞	– ⅜

Continued on Page 39

NYSE COMPOSITE PRICES

Continued from previous Page

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
[illegible]										
29¾	19½	XTRA pf1.94		6.7		378	29	28¾	29	+1⅛
59⅝	20	Yorkin			15	21	54¾	54½	54¾	
3⅞	2⅛	Zapata				488	2⅞	2¼	2¼	
27¼	18⅝	Zayre	.40	1.6	167	3397	25⅛	24¾	25	+ ⅛
15½	8¾	Zemex	.40	3.3	15	18	12⅝	12⅛	12⅛	− ½
30	13¾	ZenithE				1186	18⅞	18	18⅞	+ ⅞
10⅛	9½	Zenin n	.60e	6.2		164	9⅞	9⅝	9¾	− ⅛
3⅝	1	vjZenLb				584	2	1¾	1⅞	
21⅝	13¼	ZenNtl	.80b	4.9	7	849	16⅞	16⅛	16⅝	− ⅜
17⅛	11⅞	Zero	.44	2.7	14	55	16⅞	16	16⅝	+ ¼
29	15½	Zurnin	.68	2.5	17	78	28	27⅛	27⅞	− ⅛
11⅛	8⅛	Zweig	1.04	10.		214	10⅛	10⅛	10⅛	+ ⅛
10⅛	9	ZweigT	n.16e	1.7		570	9½	9⅛	9¼	− ⅛

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

4pm prices December 7

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
[illegible]							
ConcdF			2	1⅞	1⅞	1⅞	− ⅛
ConcF B			2	1⅞	1⅞	1⅞	
Conqst			255	1⅞	1⅞	1⅞	
ConsCos			60	⅞	⅞	⅞	
ConsOG			19	1⅞	1⅞	1⅞	
Consln		78	33	3½	3⅜	3½	
ConsMd		92	22	12	11⅞	12	+ ⅛
CoronA s		56	1718	6⅝	6⅝	6⅝	− ⅛
Cross	1.12	18	184	u37½	36¾	36⅞	+ ⅛
[illegible]							
HollyC	e.08	7	57	18½	18⅛	18⅛	+ ⅛
HomeSh		23	623	4⅞	4⅞	4⅞	− ⅛
Hormel	.44	15	17	20⅞	20⅞	20⅞	− ⅛
HrnHar		58	705	8	7⅞	8	+ ⅛
HouOT	.11e		329	15-16	⅞	⅞	− 1-16
HovnEn		5	43	7⅞	7⅞	7⅞	− ⅛
—I-I—							
ICH			600	5	4⅞	5	
[illegible]							
PegGld	.10e	18	368	13	12⅞	12⅞	− ⅛
PerinlC	.80	6	13	31⅞	31⅞	31⅞	− ⅛
PtHeat	1.54	166	98	18⅞	18⅞	18⅞	− ⅞
PhILD	.15e	5	32	9⅞	9⅞	9⅞	
PicarSy			11	⅞	3-16	⅞	+ 1-16
Pitway	1.80	12	57	97	96⅞	97	
PlyGem	.12	13	85	12⅞	12⅞	12⅞	
PopeEv			191	5-16	5-16	5-16	
Presd A	.10		9	4⅞	4⅞	4⅞	− ⅛
ProsCm		1	409	6½	6⅛	6⅛	− ⅛
Prism			8	2¼	2¼	2¼	
[illegible]							
WatsPh	1.56	16	70	198½	197¼	198½	+ ½
Wthfrd			184	1⅞	1½	1⅞	+ ⅛
Wellco	.25	6	1	15½	15½	15½	
WelAm			8	1½	1⅞	1⅞	
WelGrd		29	10	5⅛	5⅛	5⅛	
WDigtl		8	740	12⅞	12½	12⅞	+ ⅛
Worthn		6	179	8⅞	7⅞	7⅞	− ⅞

OVER-THE-COUNTER

Nasdaq national market, 2pm prices December 7

Stock	Div.	P/E	Sales 100s	High	Low	Last	Chng
[illegible]							
Wolohn	.28	9	58	17½	17⅛	17½	+ ⅛
WolvEx			1571	6⅞	6⅛	6⅞	
Worthg	.44	16	1210	22¼	21⅞	22¼	
Wyman	.80	14	30	15	14½	14½	− ½
—X—Y—Z—							
XL Dta		18	274	27⅞	26⅞	27	
XOMA			493	13⅛	12⅞	12⅞	− ⅛
X-Rite s		14	158	9⅛	9	9	
Xicor		12	885	7⅞	7½	7⅞	− ⅛
Xyvsn			374	4⅞	4⅛	4⅛	− ⅛
YelowF	.70	20	149	32⅞	32⅞	32⅞	− ⅛
ZionUt	1.44		7	22⅞	22½	22½	− ⅛

FINANCIAL TIMES Monday December 12 1988

The Business Column

Disputed power of 'local' competition

Why are the Swiss so strong in pharmaceuticals, the Swedes in cars and trucks, the Danes in insulin, and the British in auctioneering? Why do some countries become — and remain — world leaders in some industries, but not in others?

Conventional economic dogma attributes relative international competitiveness to such influences as macro-economic conditions, government policy, and unit labour costs. A very broad-minded economist may also admit that management practices could have some limited influence.

Most lay observers of industry, and practitioners within it, have always felt that this sort of analysis is inadequate and misleading. It not only brands nations as competitive in everything or nothing, but also devalues the influence of good or bad management.

The sceptics have now been joined by an economist-turned-industry guru, Professor Michael Porter of the Harvard Business School. After putting some rigour into corporate analysis with several books on competitive strategy, Mr Porter has turned his attention to "The Competitive Advantage of Nations" — to be published in the US next April.

The main themes of the book — which reports the results of a three-year study of the relative international competitiveness of 150 industries across 10 countries — were summarised by Mr Porter at the recent annual conference in Amsterdam of the Strategic Management Society.

For a start, Porter claims to have demonstrated beyond all doubt that the "factor advantages" so beloved of economists (raw materials, plentiful labour etc) have been less important for decades than selective factor disadvantages which spur managerial and technological innovation.

As examples he cites Japan's famous lack of raw materials, and also Italy's tough labour laws and high costs, which spurred its ceramic tile producers to develop simplified and automated production techniques. As a result, Italy now dominates the world market over the originally more advantaged Germans and Americans.

International rivalry

More controversial for someone who has spent years analysing the globalisation of competition, Mr Porter argues that tough international rivalry is an inadequate spur to the competitiveness of a nation's industry. Even in *today's conditions, he argues,* domestic rivalry within a multinational's base country remains vital.

Local rivalry is more personal and acute than the sort which spans borders, he explains. Top executives often know — and hate — each other, competing for prestige and "bragging rights". When one company succeeds, a nearby one benefits from the *"demonstration effect"*.

From his evidence, Porter draws the conclusion that governments should resist the fashionable temptation to permit collaboration or mergers between leading national companies, on the grounds that countries are now too small to be the appropriate unit for anti-trust analysis.

Porter's argument may be correct for the US, within the context of a huge home market, but not necessarily for Europe. In those mass markets where scale economies are becoming vital, some European countries can no longer support more than one sizeable home-based company, even when they are successful in the industry concerned. Since Porter completed his research this has become true for Britain in confectionery, one of the UK industries he cites as internationally strong.

Moreover, his emphasis on parochial rivalry between local entrepreneurs not only makes the debatable assumption that this tends to benefit long-term competitiveness. It also ignores the new breed of top managers, in both large and medium-sized companies, who see themselves as Europeans first, and local nationals second. They know that their main rivals are hundreds or thousands of miles away. National frontiers mean little to them, as Europe's policy makers are starting to realise.

Christopher Lorenz

THE MONDAY INTERVIEW

Consulting the weathervane of perestroika

John Lloyd talks to Leonid Abalkin, economic adviser to the Soviet Government

Leonid Abalkin sits with his head low between his shoulders, as though its weight is too much for his frame. He has a slightly humorous expression which gives charm to a long face. He smokes terrible Russian cigarettes, refusing much nicer British ones. Across a big office from his tidy desk, in glass-fronted shelves, are a big television and the complete works of Lenin. Behind the desk is a pleasantly — and almost uniquely — unheroic pencil drawing of Lenin.

The cast of mind and assumptions of one of the two most famous and influential reform economists in the Soviet Union have been formed by Soviet influences. Soviet experience and Soviet thinking. He will try to find a Soviet way out of a Soviet mess.

With Abel Aganbegyan, Mr Abalkin stands at the apex of the new economics — though unlike the former, he has stayed further from direct influence and says, when pressed, that he is only one of a number of people on whom Mikhail Gorbachev and the Soviet Government call for advice. (The interview was, however, interrupted by a 15-minute call from the Central Committee.)

Mr Aganbegyan, brought to Moscow in 1985 from his post as director of the Institute of Economics and Organisation of Production at Novossibirsk, has given few interviews and written little for the press. It is said he remains close to the Soviet leader.

Mr Abalkin, 57, is also a Gorbachev man, but at one remove. His appointment as director of the Institute of Economics of the Academy of Sciences, in 1986, occurred in the surging tide of Gorbachevism and has turned this most influential, and once most orthodox, of centres into one whose consensus now seems to be not just pro-reform, but anti-delay of reform.

He is well respected by his peers, has close connections with the party and advises on legislation (including the law on state enterprises, published early last year — a document of great interest but of considerable incoherence). He retains a pulpit in the press and media which he has used to increasing effect in recent weeks to warn of bureaucratic obstacles, delaying tactics and conservatism.

He has become, in effect, a weathervane of perestroika: now writing sombrely about time wasted and the need for boldness, now appearing at a US-Soviet symposium of natural and social scientists to say that perestroika was at a "critical stage". He answers readers' worried enquiries on the economy in the trade union paper Trud, a kind of "Leonid will fix it" column.

If he is a little more distant from the "kitchen cabinet" of Gorbachev advisers of 1985-87 (made up of Mr Aganbegyan, Mr Abalkin, Oleg Bogomolov of the Institute of the Economics of the World Socialist System and *Tatiana Zaslavskaya, also* from the Novossibirsk Institute), then it may be because of his manifest disappointment with the pace and scope of reform.

But he rejects the label pessimist. "Two years ago I would say: 'We will have success in perestroika by the year 2000,' and everyone said: 'Abalkin? what a pessimist.' Now, I *still* say we will have a successful perestroika by the year 2000, and they say: 'What an optimist.'"

PERSONAL FILE

- **1930** Born
- **1952** Graduates from Institute of National Economy
- **1976** Deputy head of Academy of Social Sciences of the *Central Committee*
- **1978** Head of faculty of Political Economy, Academy of Social Science
- **1986** Director of Institute of the Economy, Academy *of Sciences*
- **1987** Corresponding member of the Academy of Science

He saw last June's plenum of the Central Committee — which adopted a programme, strongly influenced by Messrs Abalkin and Aganbegyan, on "basic provisions for fundamentally reorganising economic management" — as a landmark. But it has been followed by decline and retreat.

"My idea was to scrap the present Five Year Plan (to 1990) because its workings are contradicting the way we should be going. But unfortunately we're too late now. The plan for the fourth year (1989) is now to go ahead. We had the chance to use such a manoeuvre and we lost it."

Now he insists that the next Five Year Plan must mark the *radical break. It must be* broadly indicative only, must stimulate but not command. It must treat horizontal rather than vertical relations in the economy. He wants many ministries to be swept away, to be replaced by trade associations formed by the enterprises themselves. That is the current struggle within the expert, party and administrative *apparats*.

From advocating the sharp shock, he has been forced back, for the next two years, to gradualism. Price reform will be delayed. The first, and less radical part of it — the administrative decisions to change some price levels — is now being prepared.

The larger series of decisions and acts to establish a price mechanism largely based on market relations has been pushed back apparently indefinitely. Trade reform, most crucially the convertibility of the rouble, is similarly beyond the horizon once more. Even banking reform can only proceed in fits and starts. Co-operative and even joint stock banks have opened in towns like Leningrad and Tallinn, but the great hinterland of Soviet banking is still swaddled in paper, *uncomputerised, fearful* of change.

"I would give this analogy," says Mr Abalkin. "I could give a certain diet to someone, which he would need to live *and do his work.* It would be the diet of a normal, healthy person. But if the same person is sick, he needs drugs and a course of treatment. So with our economy. We need a course of treatment for the next two years, a period of stabilisation."

The largest problem, says Mr Abalkin, is to reduce the budget deficit — recently revealed to be RS 36bn, or 6 per cent of gross domestic product. That would entail, he says, cutting expenditures, including armaments. *(He spoke before Mr* Gorbachev's announcement of a unilateral conventional arms and troops cut in the UN last week, but his remarks make clear the pressures behind such a cut.) There might also have to be cuts in some social expenditure and non-house building. Loss making enterprises must be closed or turned over to their workers. "We have had some success in the latter case," he says.

The structural shifts in the economy, long overdue, will precipitate, he says, a revolution in labour: the shaking out of 15m production workers and the employment of as many in the puny and corrupt service sector. "This demands the creation of new workplaces and the preparation and retraining of working people. We have to create a new state system to move people, retrain them, redirect them. That never existed before, because these problems didn't exist before."

He has been and remains a strong supporter of co-operatives. To have been a supporter is not difficult, but to remain one becomes more so, because co-ops have a very bad name with the Soviet people. Such grumbles are deterring all but *the most ardent from lobbying* for them. One angry reader of Trud, Mr M. Korzhakov from Moscow, asked Mr Abalkin: "Many co-ops which work in the field of catering are not *adding* anything to our menu, but are merely making profits from goods in short supply. Isn't it time to put a stop to their activities?"

'If someone is sick, he needs drugs. So with our economy. We need a two-year course of treatment'

Mr Abalkin's response was sharp. "I'm no supporter of administrative restrictions on the economy. The only co-ops whose trade I would stop would be those dealing in poison and pornography. People ask me: 'What should we dó with the co-op shashlik stalls?'" (These sell good kebabs, but at a high price, while most people find they can't get meat, or only bad quality stuff.) "We've been saying for years that the state should provide stalls like that. Now we have them. Let state canteens compete with them. We too often think that the *only solution is to forbid* things." So much for you, M. Korzhakov of Moscow, a closet Stalinist unmasked.

And what of Mr Abalkin? Can anyone who gives an answer like that really sit beneath a drawing of Lenin, across from his 40-odd collected works? Lenin, as we are now constantly reminded, was the architect of the new economic policy, which allowed petty capitalism to flourish. He died while it was still in force, but there is little doubt (though this is not the official Soviet view) that he saw it as a temporary aberration, a regrettable but necessary concession to the market. All of his acts while he led the Soviet Union were, in accord with the rest of the Bolsheviks, to build up *state industry to the exclusion* of even small scale private ownership.

No matter. The official line is that he was a man who would have loved all of this experimentation, and that — in a state which must use Lenin to justify every turn — gives Mr Abalkin and others leave, for example, to point to Sweden (which he has visited twice on study trips recently) as an example of the kind of economy he would wish to see duplicated in the Soviet Union. Socialism, he told his Trud enquirers, can be measured by two criteria.

First, there is the economic criterion: "If socialism is a higher stage of social development (than capitalism), it must outdo its predecessor in efficiency, *quality, productivity* and innovation rate." (It does not.) Second, "socialism must guarantee everyone a minimum standard of living, a lower limit of social well-being . . . *(but) if a system* does not make the individual feel master in his own workplace, then the system is not socialist." (It does not.)

There is no reason to think this is a cynical remark. Mr Abalkin sits under Lenin in every way. He knows Soviet socialism must renew itself if it is to survive. He wants it to survive. He has given it until the year 2000. He may, indeed, be an optimist.

Time to make the law work better

A.H.HERMANN

A written constitution with a built-in Bill of Rights, demanded by the left-of-centre British group Charter 88, is a desirable but much overrated objective. The model Weimar constitution did not prevent Hitler's holocaust and the constitution enacted by Stalin read beautifully.

The 1988 Chartists seem to have overshot their target. Their proposals are likely to end in an orbit outside the strata of practical politics, while down-to-earth UK's legal system has been crying out for reform for some 200 years. Even small deeds could help here more than big gestures.

Unlike the Czechs who signed Charter 77, the British Chartists do not expect to go to prison. Nor can it be said that in matters of public administration *the population of the* UK is without the protection of courts and at the mercy of the authorities.

Most administrative decisions — and that includes decisions of tribunals, central and local government departments and any other public authority — can be reviewed by courts at the request of the citizen who feels that his rights have been infringed. The door to judicial review was opened wide in 1977 and underwent fast expansion since.

Not only administrative decisions, but also refusal by the authorities to make a decision *can be the subject of judicial* review; and the complaint may be directed not only against infringement of statutory or common law rights, but also against the disappointment of *justified expectations, including* that of benefits previously enjoyed.

Most important of all, though the High Court judge will not try to second-guess the *administrative decision,* and will only be concerned with its legality, reasonableness and the correctness of the process by which it was arrived at, he can also award damages. And the procedure of asking for leave to apply for review is so simple that in most cases the plaintiff can ask for it without the help of a lawyer.

However, the concern with the state and the accessibility of the law underlying Charter 88, seems justified.

Let us take the legislative process first. The overwhelming attraction of political issues crowds business legislation out of parliamentary time. There is no proper machinery for dealing with legislative projects which require consider*able expertise to make them* work.

One example of this is tax legislation. It is incomprehensible. It is adopted without proper discussion and requires an inordinate number of subsequent amendments and authoritative interpretations. As the Law Society proposed earlier this year, an expert advisory committee should be established to sift representations, comments and evidence. The committee would report directly to Parliament which could scrutinise any draft legislation in a special standing committee. To make such con*sultations really effective, bud*get secrecy would have to be substantially reduced, as indeed it could be without any real damage.

The finance legislation is *only the extreme example of* obscurity. An improvement in legislative drafting would bring enormous benefits all round. By reducing the uncertainty of law it would make *business decisions less risky* and disputes less frequent. It would speed up and facilitate the work of courts and make their decisions more predictable.

The unsettled method of law interpretation is the next urgent problem. As European law penetrates the UK, overruling incompatible statutes and Common Law, the courts are obliged to use two different methods of interpretation. European law must be interpreted according to the intention of the legislator; English law is mostly interpreted only literally. It would be much simpler and safer to have all law interpreted in the same way, namely according to the intent of the legislator.

Unfortunately, UK statutes hardly ever state their purpose. Instead,the Parliamentary Draftsmen go into unbelievable contortions in a futile endeavour to foresee all future situations and to prevent all possible abuses which could be attempted by means of literal interpretation. It would be necessary to decentralise legislative drafting and to move it from the office of the Parliamentary Counsel to the initiating departments.

This would still leave untouched the grey area of Common Law, a playground *for judges contradicting each* other, where obviously unfair and impractical judgments are being handed down "with the greatest regret". In a society where law is all-pervasive, there is an urgent need to codify in plain language civil, commercial, criminal and administrative law.

Finally, about "human rights". Contrary to popular belief, most, if not all the precepts of the European Convention of Human Rights have been for a very long time part of Common Law. The House of Lords' decision in the Spycatcher case illustrates how *freedom of the press can be* protected without reference to the Convention. However, if the Convention were incorporated into English law, it would bring immense benefits. *First, it would give courts,* high and low, a uniform and easily accessible guidance on interpretation of UK laws. And, second, it would, in most cases, spare the citizen the trouble, *and the Government the* embarrassment, of going to Strasbourg.

A written constitution may be a lovely pie in the sky but there is much to be done down on earth to improve everyday law. Its great untapped potential could be released by making it intelligible and accessible to those who are insufficiently poor to qualify for legal aid. But that is another story.

Justinian will resume his column early next year